

*This issue of the South Bulletin is devoted to the Financing for Development Conference held in Monterrey, Mexico (18-22 March). The next issue of the Bulletin will look at the subject of technical assistance and capacity-building for developing countries in the context of international trade.*

## MONTERREY - SELF-HELP MORE RELIABLE

No one was really expecting any miracles to happen in Monterrey. More words less money flowed out of the Conference. For a large number of developing countries who, in fact, were the *demandeurs* of the conference, expectations ranged from high hopes to a tempered acceptance of the hard reality of limited 'global' help. Because financing for development forms the basis of future prosperity, many leaders from the developing world tended to see Monterrey as a springboard for a better, more co-ordinated international response to improve development prospects for two-thirds of humanity, despite all the shortcomings. A common thread that ran through the statements of the leaders from the developing world was the yearning for more fair, just and equitable international economic arrangements by way of financial and trading regimes as well as development assistance. But the industrialised world, it appears, is not ready to move towards any fundamental or systemic changes.

Tinkering with the present world economic order seems to be the best that the industrialised world is willing to accept. This chasm between the majority of the developing nations and the few rich countries is really testing international co-operation and solidarity. In fact, a number of world leaders did point out that the world needs to see the same spirit of international co-operation as evinced for fighting international terrorism. The fragile North-South 'engagement' also explains the frustration and the disappointments of the civil society groups on the Monterrey results.

What caused the most ripples at Monterrey were the announcements by the United States of America and the European Union of increases in Official Development Assistance. Creditable as they are, one has to remember that a large number of industrialised countries are still far away from a commitment made more than 30 years ago - to reach a target of 0.7 per cent of GNP for ODA.

A fact that many developing world leaders underlined was the need to roll back the one billion dollars a day worth of agricultural subsidies that OECD countries dole out. Coupled with trade liberalisation, this is having devastating effects on agriculture in many developing countries, negating even their comparative advantage.

These massive subsidies also nullify the much-publicised potential benefits to least developed countries of measures to grant tax-free and quota-free access to European and American markets.

Much of the focus appears to target the removal of 'extreme' poverty - like a record stuck on the same musical note. But the removal of poverty alone is no guarantee of prosperity. Bringing prosperity would call for resources that would dwarf the halting and faltering responses now seen to just removal of extreme poverty. Under the circumstances, domestic resources will continue to be more reliable.

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## TRIUMPH OF JUSTICE MEANS LIBERTY WINS

*In the last few years, the South has paid the North \$800 billion in debt owed and still the total debt remains the same, said **President Hugo Chavez Frias of Venezuela, Chairman of the Group of 77 and China**, in his address to the Monterrey Conference. "It is a strange monster this debt, one keeps paying and paying and it continues to grow." Following is an unofficial translation of most of his statement, delivered in Spanish, where President Chavez calls for innovative solutions and not 'band-aids' to battle what he describes as a global 'social emergency.'*

"... I speak in my capacity as Chairman of the Group of 77 and China, and more particularly on behalf of all the poor on our planet – not only 1.5 billion people existing in absolute poverty in the 3rd and 4th worlds, but also the more than 200 million poor who live in the 1st and 2nd worlds.

For many of them this Summit holds out great expectations. However, I am sure that the great majority of them do not even know that we are here. Nonetheless, their destiny and lives depend to an important degree on issues that we have started to debate here today.

The first idea I would like to present is that we all recognize — not only on paper, or in a spoken or written word, but above all in the most profound depths of our conscience — that the world is not only twisted and distorted but is in the words of Eduardo Galeano an "upside down world", topsy-turvy. We, the leaders of the world assembled here, can and must do a lot to straighten it up, to make it right.

The second idea has to do with the above. We must act, and not only talk and make declarations. And what better occasion than this one with the Heads of State and Government assembled to take genuine decisions needed to save the world, indeed to transform the world, because the world as it is going, according to my judgment, is not a viable one in the long term. We are destroying it.

We have a bad example before us. There are many bad examples of things we have said, we have written and have not implemented and fulfilled. Ten years ago, in

1992, the Earth Summit took place in Rio de Janeiro. Today, according to a survey made of the last few years, it can be seen that since the Rio Summit to the present, the destruction of tropical forests has continued, as has the destruction of once fertile soils which are now desert, and more than 250,000 species of animals and plants have disappeared.

And the atmosphere continues to be poisoned and contaminated, while the climate is undergoing the most significant changes that it has experienced in the last 10,000 years, as the scientists tell us.

A year and a half ago we held the UN Millennium Summit: We endorsed and adopted a Declaration there. But we need to ask ourselves a year and a half later what have we done? To begin to fulfil these noble objectives we set ourselves for the year 2015: to reduce poverty by half, to ensure that all boys and girls receive free education, that everybody has the right to life and the right to health. Have we succeeded in taking some all-important, transcendental decisions in a year and a half? We have seen nothing of that nature anywhere. It is clear that real decisions that will change the world have not yet been taken.

The third idea: We talk about financing for development. But what kind of development are we talking about? We need to define this, and most appropriately for the Johannesburg Summit in the next few months. Because it is undeniable that the so-called development model of the North has at times been the cause of the underdevelopment of the South. It has been shown, for example, that if

everyone in the world were to enjoy the levels of life of the most highly developed countries, ten planets similar to the earth would be required to sustain the life of all the human beings on our planet. We must therefore define where we are going and what kind of development we are talking about. What are we going to finance? What are we going to develop?

There is no doubt that the United Nations has been guiding the development process. The United Nations Development Programme is a wonderful instrument which we recommend to Heads of Government and Heads of State to follow closely. Without doubt, this is the type of development we must finance and take care of with urgency: in other words, human development.

As we know, the UNDP has established, with great precision, three fundamental variables for human development. First, life expectancy and health. Secondly, education: school enrolment and the quality of education; and thirdly, levels of family real income. These are the three variables on which we must work very hard, and we must do so immediately, not tomorrow!

The fourth idea I would like to leave with you is a question: what exactly are we going to do? There are some very positive ideas in the "Monterrey Consensus", but I believe we must place them in the context of time and space as well. We have to start with what is of highest priority and the greatest urgency. From Venezuela we recommended, both at the Millennium Summit and at the Summit of the Americas, that a social emergency be declared. Although we were

referring to Americas, I feel that this applies to and is valid world-wide. It is necessary that we recognize that the world finds itself in the midst of an extremely grave social emergency and that it is essential to proclaim this emergency and to act accordingly. It occurs to me to point out that the International Monetary Fund in its present form is not the instrument needed for this battle, a battle for the life of billions of people. No, the IMF was not created for this purpose.

I propose that we discuss urgently the creation of new instruments. Why not think of an International Humanitarian Fund. We would have to change just one or two letters – the ‘m’ in Monetary for the ‘h’ in Humanitarian. How would we finance this International Humanitarian Fund?

Well, it could be done with a percentage of the external debt. But, we should take such a decision right now and here. However, this is not simply a matter of debt relief. No, these are merely band-aids, in the presence of a very grave illness that is fatal to the poor peoples of the planet.

A percentage of the external debt of the developing countries, say 10 per cent, could be directed immediately to save millions of lives. Similarly, 10 per cent of military expenditure of the world's total military expenditures would suffice to save millions of people.

If we were to stop making tanks, and airplanes and smart missiles, etc., I believe we would save many lives immediately. A percentage of confiscated drug traffic, international corruption; and another matter of great importance that has often been discussed, but never decided upon: a world tax on speculative transactions and on the tax havens already existing on the earth.

But the time has come to take decisions, not merely to talk. Something must be done to deal with the emergency that we are faced with in the world!

I shall not enlarge any further on the subject; I simply wish to express appreciation to the Group of 77 and China for reaching after lengthy deliberations a consensus that we have brought here, a consensus that is founded on truth. Consensus cannot, of course, be absolute. That is impossible. There are some important ideas behind this consensus. For instance, each country has been asked to take the initiative at the national level to mobilize resources for development. This could certainly be done, relatively speaking. But, there is a group of countries in the world, in which more than five hundred million people are unable to raise one cent for development. That is the reality we face in this world.

In addition, it is demanded that international financial resources for development be mobilized, which is the second theme of this conference and of this “consensus”. However, one must change the “how” in order to mobilize international resources, it is necessary to change the conditionalities.

The International Monetary Fund, for example, is undergoing reform, according to its President, and we applaud it. The IMF structural packages have often been a mortal venom for our peoples. The so-called structural adjustments have produced rebellions, wars, coups d'état, uncertainty and death for the peoples of the Third World and the peoples of the fourth world. This needs to be changed urgently by giving special and differential treatment to countries of the world as a function of their level of development or underdevelopment.

With regard to international trade, how much longer can the

first world continue subsidizing its own agriculture; one billion dollars a day is the subsidy provided for agriculture in the first world, and yet the developed countries demand that we in the developing countries should not subsidize. This not only unjust, it is immoral, truly immoral. What is also needed in the world is a new ethical architecture. How can one demand what is not implemented? Are we going to keep proclaiming what does not get done? We demand from the world of the South that an end be put to the obscene subsidies that are given to production in the first world. Lastly, we must insist on the compliance with the allocation of 0.7 per cent of GNP, agreed upon more than 30 years ago, which would make available to us approximately 200 billion dollars. These are sufficient resources for human development, on par with the external debt. Of course, for many countries in the world the external debt cannot be repaid. Venezuela has paid in three years, 13 billion dollars for debt to the North in spite of our poverty and disasters we have suffered. We are continuing to pay our debt and will do so in future, but this is not possible for many other countries in the world.

In the last few years, the South has paid the North \$800 billion of the debt owed, in interest and amortization, and still the total debt remains the same. It has not decreased, rather it is increasing. It is a strange monster this debt, one keeps paying and paying, yet it continues to grow.

All these ideas I advance in the name of the countries of the South. I had the privilege, for which I am grateful, to pronounce these words of critique, in order to look for a consensus among the differences, so that we can march all in the spirit of Monterrey, in the spirit of Mexico, in the spirit of justice, in the spirit of Simon Bolivar. Let us make justice triumph and liberty will triumph too."

## KILL POVERTY AND HUNGER, NOT THE POOR AND HUNGRY

*Known for his frank and hard-hitting assessment of the current world picture, Dr. Fidel Castro Ruz, President of the Republic of Cuba, graced the Monterrey Conference on Financing for Development with a brief visit. His address, reproduced below, was also brief but packed with many sobering thoughts, which he urges 'statesmen and politicians' to reflect on.*

"Not everyone here will share my thoughts. Still, I will respectfully say what I think.

The existing world economic order constitutes a system of plundering and exploitation like no other in history. Thus, the peoples believe less and less in statements and promises.

The prestige of the international financial institutions rates less than zero.

The world economy is today a huge casino. Recent analyses indicate that for every dollar that goes into trade, over one hundred end up in speculative operations completely disconnected from the real economy.

As a result of this economic order, over 75 per cent of the world population lives in underdevelopment, and extreme poverty has already reached 1.2 billion people in the Third World. So, far from narrowing the gap is widening.

The revenue of the richest nations that in 1960 was 37 times larger than that of the poorest is now 74 times larger. The situation has reached such extremes that the assets of the three wealthiest persons in the world amount to the GDP of the 48 poorest countries combined.

The number of people actually starving was 826 million in the year 2001. There are at the moment 854 million illiterate adults while 325 million children do not attend school. There are 2 billion people who have no access to low cost medications and 2.4 billion lack the basic sanitation conditions. No less

than 11 million children under the age of 5 perish every year from preventable causes while half a million go blind for lack of vitamin A.

The life span of the population in the developed world is 30 years higher than that of people living in Sub-Saharan Africa. A true genocide!

The poor countries should not be blamed for this tragedy. They neither conquered nor plundered entire continents for centuries; they did not establish colonialism, or re-established slavery, and, modern imperialism is not of their making. Actually, they have been its victims. Therefore, the main responsibility for financing their development lies with those states that, for obvious historical reasons, enjoy today the benefits of those atrocities.

The rich world should condone their foreign debt and grant them fresh soft credits to finance their development.

The traditional offers of assistance, always scant and often ridiculous, are either inadequate or unfulfilled.

For a true and sustainable economic and social development to take place much more is required than is usually admitted. Measures as those suggested by the late James Tobin to curtail the irrepressible flow of currency speculation — albeit it was not his idea to foster development — would perhaps be the only ones capable of generating enough funds, which in the hands of the UN agencies and not of awful institutions like the

IMF, could supply direct development assistance with a democratic participation of all countries and without the need to sacrifice the independence and sovereignty of the peoples.

The Consensus draft, which the masters of the world are imposing on this conference, intends that we accept humiliating, conditioned and interfering alms.

Everything created since Bretton Woods until today should be reconsidered. A farsighted vision was then missing, thus, the privileges and interests of the most powerful prevailed. In the face of the deep present crisis, a still worse future is offered where the economic, social and ecological tragedy of an increasingly ungovernable world would never be resolved and where the number of the poor and the starving would grow higher, as if a large part of humanity were doomed.

It is high time for statesmen and politicians to calmly reflect on this. The belief that a social and economic order that has proven to be unsustainable can be forcibly imposed is really senseless.

As I have said before, the ever more sophisticated weapons piling up in the arsenals of the wealthiest and the mightiest can kill the illiterate, the ill, the poor and the hungry but they cannot kill ignorance, illnesses, poverty or hunger.

It should definitely be said:  
"Farewell to arms."  
Something must be done to save Humanity!  
A better world is possible!"

## MILLENNIUM DEVELOPMENT GOALS A NON-STARTER

*Almost two years after the Millennium Development Goals were adopted, no progress can be detected, President Olusegun Obasanjo of Nigeria told the Monterrey Conference. In his address, President Obasanjo touched on a number of issues - official development assistance (ODA), foreign direct investment (FDI), the Monterrey 'Document', and also elaborated on what he thought should be the Monterrey 'Compact.' Following are abstracts from the President Obasanjo's speech.*

"At the United Nations Millennium Summit in September 2000, the leaders of all member countries of the United Nations, including myself, agreed on a set of ambitious international development targets, which were designed to help create a better world and to halve the scourge of poverty by the year 2015. Attaining these targets of 2000 requires an enormous amount of resources, both by governments in developing countries and by the international donor community. Almost two years after the Millennium Development Goals were adopted, we detect no progress and must express our profound concern at recent studies by the World Bank which suggest that Africa in particular is unlikely to come even close to realising those goals if present trends continue.

For almost 35 years the international community had agreed to the principle that industrialised countries should devote 0.7 percent of their GNP for official development assistance (ODA). While we commend the very few countries who reached this target, the record for the majority shows decline. Today we register a deplorable 0.25 percent of GNP from the industrialised world earmarked for development purposes, with a rather inequitable distribution among countries and regions. This shockingly low performance makes the realisation of the Millennium Goals impossible. At the same time we are again witnessing a significant diversion of funds from development purposes, especially for Africa, to the financing of

programmes in other parts of the world in a similar pattern as at the beginning of the 1990's following the fall of the Berlin Wall.

Mr Chairman, the dismal failure of ODA is compounded by the recent sharp drop in foreign direct investment (FDI), which for some years in the 1990s was adduced as the new mechanism to bring resources and prosperity to the developing world.

What then can we then do? Where do we go from here? Is there hope for an improvement of this unacceptable situation? To answer these questions, we must begin by committing ourselves to an honest reckoning.

Mr Chairman, in a globalised world the fate of the majority of humankind can not be isolated or ignored. Ultimately, the survival and security of nations will be determined through action or inaction, effectiveness or ineffectiveness, enlightened self-interest or cold-hearted pursuit of short-term, narrow interests. Let us make no mistake: if the lessons of the past six months, since September Eleven, are to be heeded, it is that security is indivisible. Lack of security anywhere translates directly into lack of security everywhere! Conversely, security for one enhances security for all our countries and charting a way out of conflict, poverty, poor governance and marginalisation.

NEPAD (New Partnership for Africa's Development) is an Afri-

can-bred and African-inspired exercise, which could benefit from a variety of partnerships with actors from the North. Yet, we must guard that NEPAD is not being turned against us as a tool for new conditionality. If partners want to come on board they are welcome now, as before, but contribution must not only be limited to words and good advice.

Mr Chairman, if we cannot find sufficient partnerships and new resources to bolster and assist NEPAD, permit me to wonder why we gather for meetings such as these? On the other hand, NEPAD is being drawn up in such a way that, with or without adequate contributions from our development partners, it can be implemented to a significant extent, based on our own visions and our own programmes.

Mr Chairman, let us set aside the crafted language of the Monterrey Document and state in clear and simple terms what the developing world expects from this gathering. Among others, we expect:

One: rededication to the Millennium Declaration, and joint pursuit of the Millennium Development Goals;

Two: debt relief at a substantial level for all developing countries, not only limited to the HIPC process;

Three: significantly improved market access and removal of dis-

tortions, especially in agriculture, through WTO negotiations, which should not be vitiated by unilateral legislation;

Four: reversal of the present decreasing trend in ODA flows - and in particular significant increase in ODA for Africa and the least developed countries.

Five: effectiveness in the allocation of aid by the donors and the utilization by the recipients.

Mr. Chairman, I believe we can achieve more than the scope of the draft Monterrey consensus. We are capable - and we must express and codify our collective determination and readiness to provide a critical mass of development assistance.

If we must acknowledge - as we do - that the long standing international target of 0.7% of GNP for ODA is unattainable at the present time, let us then agree here on a realistic target for the next few years, which corresponds with our collective sense of urgency, responsibility and atonement for past failures. The Monterrey Compact could thus have three pillars:

- On the part of the developing countries: there would be an undertaking to promote good governance and accountability - which in any case is in our own best interest, in order to ensure an enabling environment for economic and social development that would reduce poverty and stimulate investment;
- On the part of industrialized countries: there should be commitment, individually and collectively, to a gradual increase of 0.5% of GNP for ODA. This would mean a doubling of current, woefully inadequate, levels within five years. Alternatively, those industrialized countries who do not want to be bound by such a quantitative target, may wish to commit themselves to funding, in full or partially, the activities required to attain the Millennium Development Goals;
- A joint commitment: to negotiate by the end of 2003, a further substantial reduction in tariffs and quotas for goods and services from the developing countries - which would be the most immediate and effective mechanism to improve incomes.

Mr Chairman, such a compact would instil true and dynamic meaning to our efforts here in Monterrey. It would create the conditions for and the means to work towards a better world with less poverty, more security for humankind, and more global justice and equity. Without such a compact, I, for my part, believe that the Consensus: Document will have no practical consequences beyond a repetition and reaffirmation of generally accepted principles, concepts and statements.

Mr Chairman, this Conference must set the tone for our mutual engagement in the future. If we succeed to engage each other on a more concrete level than general exhortations, we will have made significant progress and may have turned the tide in a more encouraging direction. If we only talk at each other, without concrete commitments and results, we will have signalled our recognition that the Millennium Development Goals will remain a dead letter. In addition, we also may have to re-examine the utility and wisdom of calling such mega-Conferences, if they consistently fail to deliver a minimum of real advance in critical areas."

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## ARGENTINA - A NEW BEGINNING PREMISED ON PEOPLES' SACRIFICE

*"Development and prosperity of nations can no longer be an abstract theory nor an exercise of trial and error since the results reflected in figures and graphics do not show the faces of millions of children, women and men," said Dr. Eduardo Duhalde, President of the Argentine Republic in his address to the Monterrey Conference. "They are the ones that pay the cost, the high cost of being eliminated from the system," he affirmed, adding, "In the daily fight between the powerful and the destitute people, the lack of participation does not mean neutrality. It means siding with the wealthy." Following is President Duhalde's statement, adapted from the original Spanish version.*

"Argentina, my country, is in crisis.

Argentina, my country, has decided to change. And this always means crisis.

We are at the end of a cycle. But history shows us that the End is the foundation of the Beginning.

To change, to start again, we have decided to put an end to the

fiscal disorder which, combined with an unfortunate monetary and exchange system, has led us into the greatest recession in our history and to replace it by an economic

program based on the following macro-economic foundations:

- a balanced public budget
- one single currency, our own
- a floating exchange rate
- a progressive elimination of financing and payment restrictions

Thus, we hope to build a competitive market economy which allows us to get back onto the path of growth and successful integration in the world.

These are the pillars of our program, which seek to recover the path we lost along the way, based on production, a culture of work and Social Justice.

However, this change, this transformation we are starting, thanks to the huge sacrifice of our people, also needs the understanding and co-operation of the international community.

I speak to you under these circumstances as I consider that this Consensus is the most serious attempt, in a long time, to discuss issues related to the development process.

We all here agree that freedom, democracy, co-operation, market economy, and particularly an equitable distribution of wealth are the basis and at the same time, the instruments we must use to discuss the problems of development.

The lack of a serious approach to these issues, may be the greatest

global debt of the '90s, has pushed us into the XXI century - full of asymmetries for the developing countries - to obtain, under fair conditions, the necessary resources to ensure their economic growth and social peace.

The difficulties in market access, protectionist policies, corruption, terrorism, the lack of training and the volatility of external capital flows, are factors that prevent the world from enjoying the benefits promised by globalization.

Therefore, the gap between many emerging economies and developed countries has not been reduced. On the contrary, it seems (to grow) deeper day by day. Otherwise this meeting would not have been held.

We are not asking for compassion but for a new global context. The President of the World Bank, James D. Wolfensohn had said that the world needs a new architecture for development. This will not be possible if the rich economies do not reduce protectionism in all its forms and eliminate its distorting effects.

A long time ago, an Argentine economist, Mr. Raúl Presbisch, coined a phrase that belongs certainly to the sense and spirit of this Conference: "trade not aid."

I am not saying that aid is not important for development, it is always needed and in some cases, and at some stages, is crucial, we understand that. But it is impossible to think that it is efficient in a context of severe trade distortions, mainly in the agricultural sector.

Argentina expects then - as many countries represented here expect as well - that the Round Negotiations started in Doha, may help to improve the situation of emerging economies and facilitate their access to markets with greater purchasing power.

It is also dear that changes are necessary in the way that multilateral credit agencies work, enabling them to adapt to the new reality.

That is why, Argentina urges the International Monetary Fund, the World Bank, and the World Trade Organization, to co-operate in the design of preventive and anti-cyclical policies to assist those sectors which have been greatly damaged.

Development and prosperity of nations can no longer be an abstract theory nor an exercise of trial and error since the results reflected in figures and graphics do not show the faces of millions of children, women and men. They are the ones that pay the cost, the high cost of being eliminated from the system.

In the daily fight between the powerful and the destitute people, the lack of participation does not mean neutrality. It means siding with the wealthy.

The last call I am making today at this Conference is one for a vision, for the hope of reaching a better balance between the emerging nations and developed ones.

A map of the world, where utopia is not included, is not worth considering."

## DEVELOPING WORLD: PREVENTING THE TRAUMA OF BUSINESS CYCLES

*These economic and social costs of the swings in business cycles are very high indeed for the developing world, argues Dr. Jose Antonio Ocampo, Executive Secretary of Economic Commission For Latin America and the Caribbean (ECLAC) and a member of the newly-appointed Board of the South Centre. In a statement to the International Conference on Financing for Development, Monterrey, Mexico, Dr. Ocampo outlines the need to diminish capital volatility at its source and to make room for the adoption of counter-cyclical macro-economic policies by developing countries. The following is the text of his statement.*

“Aside from the volatility of short-term capital flows, sharp swings between abundance and scarcity in private external financing for the developing world have been one of the most disturbing features of the international economic system over the past three decades. These ebbs and flows have translated into sharp business cycles, particularly because the high mobility of capital has curtailed developing countries’ manoeuvring room for the adoption of counter-cyclical macro-economic policies. These cycles’ economic and social costs are very high indeed. For example, as a result of the recent drought in external finance triggered by the Asian crisis, the Latin American and Caribbean region’s economic growth rate slipped to a scant 1.5 per cent between 1998 and 2002.

Moreover, the downward trend in poverty has come to a halt, and in more than a few countries the poverty rate has begun to climb quite steeply.

This situation must be addressed by means of a comprehensive approach to international co-operation that provides for macro-economic policies having a more clearly preventive orientation during economic booms, together with more information and better regulation of financial markets, an adequate supply of exceptional financing from the International Monetary Fund during times of crisis, a clear delimitation of the scope of the conditionality applied by the Fund, and multilateral mechanisms for dealing with

debt overhangs. The key objectives should be to diminish capital volatility at its source and to make room for the adoption of counter-cyclical macro-economic policies by developing countries or, in other words, incentives for the adoption of austerity policies during booms and policies to promote economic reactivation during crises.

This approach is based on the assumption that one of the explicit objectives of international co-operation should be to smooth out business cycles in the developing world. The comprehensive nature of this approach also means that its various components should be seen as complementary rather than as alternative measures. Hence, the creation of multilateral schemes for dealing with debt overhangs or, in other words, with problems of solvency, should not be regarded as a substitute for emergency IMF funding, whose purpose is to resolve problems of liquidity. Otherwise, there is a chance that country-risk spreads may widen, which is why many developing countries regard proposals for the creation of debt workout mechanisms with some misgivings.

These abrupt cycles in private external financing serve to underscore the continuing importance of multilateral development banks. These banks play a crucial role in combating poverty around the world and in providing external financing to countries lacking access to private capital markets, especially the poorer and smaller nations.

They also perform a vital function by providing external finance to middle-income countries when capital flows dry up. In addition, development banks carry out essential tasks on a number of other fronts by acting as catalysts for private resource flows, as technical assistance mechanisms, as policy forums and as suppliers of global public goods, in close co-operation with United Nations agencies.

In closing, I would like to emphasize the need to look at international financial co-operation as a concerted effort by institutional networks rather than as the result of the work of a few international agencies. Viewed from this perspective, the situation provides broad scope for action by developing countries in the creation of sub-regional development banks, reserve funds and mutual support agreements among central banks, and the establishment of macro-economic and regulatory co-operation schemes.

The key role to be played by such regional and sub-regional bodies should be explicitly acknowledged by the international community. The International Monetary Fund of the future should be seen as a network of regional reserve funds rather than as a single global institution, and the creation and consolidation of sub-regional development banks should be one of the primary tasks of the World Bank and of regional development banks.”

## US MILLENNIUM CHALLENGE ACCOUNT TO DELIVER 'TIED' AID

*At the Monterrey Conference on Financing for Development, the President of the United States of America, Mr. George W. Bush, announced the creation of a Millennium Challenge Account. To be funded by an amount of \$5 billion per annum over the next three budget years - by way of increased ODA - the new Account will be devoted to projects in nations that 'govern justly, invest in their people and encourage economic freedom.' To facilitate the process, 'clear and concrete objective criteria' are to be developed, to be applied 'fairly and rigorously.' Following are extracts from President Bush's remarks, in which he calls for a 'new compact for development.'*

"We meet at a moment of new hope and age-old struggle, the battle against world poverty. I'm here today to reaffirm the commitment of the United States to bring hope and opportunity to the world's poorest people, and to call for a new compact for development defined by greater accountability for rich and poor nations, alike.

Many here today have devoted their lives to the fight against global poverty, and you know the stakes. We fight against poverty because hope is an answer to terror. We fight against poverty because opportunity is a fundamental right to human dignity. We fight against poverty because faith requires it and conscience demands it. And we fight against poverty with a growing conviction that major progress is within our reach.

Yet, this progress will require change. For decades, the success of development aid was measured only in the resources spent, not the results achieved. Yet, pouring money into a failed status quo does little to help the poor, and can actually delay the progress of reform. We must accept a higher, more difficult, more promising call. Developed nations have a duty not only to share our wealth, but also to encourage sources that produce wealth: economic freedom, political liberty, the rule of law and human rights.

The lesson of our time is clear: When nations close their markets and opportunity is hoarded by a

privileged few, no amount — no amount — of development aid is ever enough. When nations respect their people, open markets, invest in better health and education, every dollar of aid, every dollar of trade revenue and domestic capital is used more effectively.

We must tie greater aid to political and legal and economic reforms. And by insisting on reform, we do the work of compassion.

The United States will lead by example. I have proposed a 50-per cent increase in our core development assistance over the next three budget years. Eventually, this will mean a \$5-billion annual increase over current levels.

These new funds will go into a new Millennium Challenge Account, devoted to projects in nations that govern justly, invest in their people and encourage economic freedom. We will promote development from the bottom up, helping citizens find the tools and training and technologies to seize the opportunities of the global economy.

I've asked Secretary of State Powell, Secretary of Treasury O'Neill to reach out to the world community to develop clear and concrete objective criteria for the Millennium Challenge Account. We'll apply these criteria fairly and rigorously.

And to jump-start this initiative, I'll work with the United States Con-

gress to make resources available over the 12 months for qualifying countries. Many developing nations are already working hard on the road — and they're on the road of reform and bringing benefits to their people. The new Compact for Development will reward these nations and encourage others to follow their example.

The goal of our development aid will be for nations to grow and prosper beyond the need for any aid. When nations adopt reforms, each dollar of aid attracts two dollars of private investments.

When aid is linked to good policy, four times as many people are lifted out of poverty compared to old aid practices.

All of us here must focus on real benefits to the poor, instead of debating arbitrary levels of inputs from the rich. We should invest in better health and build on our efforts to fight AIDS, which threatens to undermine whole societies. We should give more of our aid in the form of grants, rather than loans that can never be repaid.

The work of development is much broader than development aid. The vast majority of financing for development comes not from aid, but from trade and domestic capital and foreign investment. Developing countries receive approximately \$50 billion every year in aid. That is compared to foreign investment of almost \$200 billion in annual earnings from exports of \$2.4

trillion. So, to be serious about fighting poverty, we must be serious about expanding trade.

Trade helped nations as diverse as South Korea and Chile and China to replace despair with opportunity for millions of their citizens. Trade brings new technology, new ideas and new habits, and trade brings expectations of freedom. And greater access to the markets of wealthy countries has a direct and immediate impact on the economies of developing nations.

As one example, in a single year, the African Growth and Opportunity Act has increased African exports to the United States by more than 1,000 percent, generated nearly \$1 billion in investment, and created thousands of jobs.

Yet we have much more to do. Developing nations need greater access to markets of wealthy nations. And we must bring down the high trade barriers between developing nations, themselves. The global trade negotiations launched in Doha confront these challenges.

The success of these negotiations will bring greater prosperity to rich and middle-income and poor nations alike. By one estimate, a new global trade pact could lift 300 million lives out of poverty.

When trade advances, there's no question but the fact that poverty retreats.

The task of development is urgent and difficult, yet the way is clear. As we plan and act, we must remember the true source of economic progress is the creativity of human beings. Nations' most vital natural resources are found in the minds and skills and enterprise of their citizens. The greatness of a society is achieved by unleashing the greatness of its people. The poor of the world need resources to meet their needs, and like all people, they deserve institutions that encourage their dreams.

All people deserve governments instituted by their own consent; legal systems that spread opportunity, instead of protecting the narrow interests of a few; and the economic systems that respect their ambition and reward efforts of the people. Liberty and law and opportunity are the conditions for development, and they are the common hopes of mankind. The spirit of enterprise is not limited by geography or religion or history. Men and women were made for freedom, and prosperity comes as freedom triumphs. And that is why the United States of America is leading the fight for freedom from terror.

We thank our friends and neighbors throughout the world for helping in this great cause. History has called us to a titanic struggle, whose stakes could not be higher because we're fighting for freedom, itself. We're pursuing great and worthy goals to make the world safer, and as we do, to make it better.

We will challenge the poverty and hopelessness and lack of education and failed governments that too often allow conditions that terrorists can seize and try to turn to their advantage.

Our new approach for development places responsibility on developing nations and on all nations. We must build the institutions of freedom, not subsidize the failures of the past. We must do more than just feel good about what we are doing, we must do good.

By taking the side of liberty and good government, we will liberate millions from poverty's prison. We'll help defeat despair and resentment.

We'll draw whole nations into an expanding circle of opportunity and enterprise. We'll gain true partners in development and add a hopeful new chapter to the history of our times."

## EUROPEAN UNION INITIATIVE ON ODA

*As the major aid donor to the developing world, the European Union announced its intention to increase ODA flows and streamline development assistance at the Monterrey Conference. In the following extracts, taken from the statement of José María Aznar, President of Spain, speaking on behalf of the European Union, the relevant details are spelt out, along with the EU thinking on 'Global Public Goods.'*

"In accordance with our repeated commitment to achieve the goal of channelling 0.7 per cent of our Gross National Product to Official Development Assistance, the Member States of the EU have decided to do what they must to collectively reach an average of

0.39 per cent in the European Union by 2006.

In order to do this, those European Union Members with contributions equal to or greater than 0.7 per cent will continue their efforts to maintain or exceed this amount.

Those contributing less than this amount will make every effort to at least reach the level of 0.33 per cent of their GNP for Official Development Assistance in 2006.

(Mr. Romano Prodi, President of the European Commission, in

his address to the Monterrey Conference, elaborated on EU's new aid package and said, "This is a formal commitment which will allow a substantial increase in the amounts allocated to relieving poverty.

Aid from the EU and its Member States will increase by about E 8 billion (approximately USD 7 billion) per year by 2006 from its current level of E 27 billion, more than 50 per cent of the world's ODA. Over the period 2003-2006, this progressive increase will enable us to devote about E 22 billion more to the fight against poverty.

We are giving priority to health and education in the allocation of our aid and are making a substantial contribution to the Global Health Fund to fight AIDS and other contagious diseases.")

In addition, the European Union demonstrates its determination to make Development Assistance more efficient. It must reach the beneficiaries with greater ease, greater speed and less cost.

In order for this to happen, the Member States of the European Union will implement concrete measures to co-ordinate policies and procedures for harmonization before 2004, in accordance with internationally agreed criteria, including the application of the recommendations by the OECD Special Unit, Development Assistance Committee, on donor actions.

In accordance with this same philosophy, we will implement the recommendations of the Development Assistance Committee to eliminate conditions for assistance for least developed countries.

We will also continue debates for a greater untying of bilateral aid. The European Union will also study measures for a greater untying of community aid, while maintaining the current systems of pricing preferences within the framework of accords between the Union and the ACP Group.

Based on the conviction that international trade is an authentic engine for development, the European Union is firmly committed to leading the development agenda agreed in Doha, with special emphasis on the liberalization of markets.

The European Union is in fact the main export market for developing countries and offers generous trade preferences.

Furthermore, the EU has marked the appropriate path with the "Everything but Weapons" initiative, which concedes access with no tariffs or contingencies for exports of Least Developed Countries.

The European Union will increase assistance to strengthen long-term trade capacity, productive capacity and the measures to exceed supply limits in developing countries.

The EU will immediately facilitate technical assistance to improve the negotiating capacity of developing countries with respect to trade, including its commitments assumed at the WTO Pledging Conference in Geneva on March 11, 2002, which have reached 60 per cent of the total amount committed in 2002.

We will continue to work on the process of an international defini-

tion of the most important global public goods, including the proposal for the establishment of a special unit to that effect.

Sufficient financial resources must be dedicated to Global Public Goods. This is consistent with the Official Development Assistance convention.

Specific funds, such as the recent Global Health Fund, may be valid instruments for channelling private, bilateral and multilateral resources.

The Union will make every effort to influence the reform of the international financial system by fighting against abuses of financial globalization, strengthening the voice of the developing countries in making economic decisions internationally and, while respecting their respective functions, enhancing coherency between the UN, international financial institutions and the WTO.

Finally, the Union will continue its efforts to guarantee debt sustainability in the context of the renewed HIPC initiative, so developing countries, particularly the poorest, can continue to grow and develop without the limitations of unsustainable debt.

We understand, however, that it is necessary to streamline procedures and to shorten terms, given the difficult situations of the eligible countries.

These commitments express the will to involvement that the European Union has and will have, for improving the living standards of broad sectors of the planet."

## “NEW PARTNERHIP” ENVISAGED IN ‘MONTERREY CONSENSUS’

*The UN Secretary General Kofi Annan defended the Monterrey ‘Consensus’ document. He said it was not ‘weak’ but that it would be if not implemented. A number of high-level participants agreed that the Monterrey Conference was a road map to the future. India’s Minister for Privatisation, Mr. Arun Shourie presented his assessment of the contours of the “new partnership” that is envisaged in the Monterrey ‘consensus.’ In the following extracts from his statement, Mr. Shourie also comments on the US and EU initiatives on ODA, innovative methods to raise resources, corporate governance, and a system to evaluate annually the action taken on important international conferences.*

“First and foremost, the primary responsibility for improving the state of our affairs lies with our own societies. We have to mobilize our own resources in greater measure. We have to ensure that those resources, as well as what is received by way of aid, is used better.

Nor do I detect, Sir, the moral hazard that some others do in linking aid - like devolutions within our own governmental structures — to performance. The argument seems to be that the enforcement of performance criteria will inflict hardship on ordinary people, specially the poor - who are in no way responsible for malfeasance or inefficiency. The recipient country should be the most concerned, as it is the most affected, by the conduct that leads to those resources being wasted or siphoned off. Given the vast pool of talent and experience that is available in the development community and in our countries, I am sure it is possible to devise criteria that achieve both objectives simultaneously: they help improve conduct, and at the same time insulate the people at large. Such criteria will ensure that resources are better used, and therefore the resistance to raising resources for aid will be softened; and the people in our societies - the poorest most of all - will reap greater benefits from those resources.

We must own up to and scrutinize our own working: it is entirely right, of course, to remind others of what they are doing, of what more they should be and are not doing, but we too must own up to what we inflict on our own people. True, many things remind everyone today of how intertwined their fate is with that of others. The consequences of a territory and of resources becoming available to terrorists, of a breakdown of public health systems in one region, of a

polluting industry, affect people far and wide. This has quickened compassion and concern. But we cannot bank on this as a solution. Each society has enough problems of its own to contend with and to meet them. And no one owes us a living.

That is what I would want people from countries like mine to be mindful of, with whom I am one.

My counsel to friends from the developed world is naturally the converse! That today there is a net transfer of resources from many poorer countries to the North is a grave reproach. A house with such vast chasms between rooms cannot stand, any more than one divided against itself - indeed, such a house is bound to be not a dwelling at all.

But those chasms cannot be bridged, the campaign against the impoverishment and indignity that afflict vast sections of humanity cannot be won, without resources. It was well said at the time the size of the Marshall Plan was being debated that it is no use extending a ten foot rope to a person drowning in twenty feet of water. The target of assistance established three decades ago is not an excessive call on the means of rich countries.

The announcements that have been made by the United States and by the EU are most welcome. They are the “headline news” of this Conference. But we must also remember that they are but a fourth or fifth of what panel after panel has estimated is required for meeting just the Millennium Goals: Goals to which the Heads of State and Government of the world committed themselves in the General Assembly, Goals which themselves are modest as can be.

We must proceed on the assess-

ment of the leaders of the US and EU that this is the most that the peoples in those countries can be persuaded to part with in the coming years by way of aid. That assessment redoubles the argument for innovative methods of raising resources. A variety of them have been broached and others can be devised. Many involve small levies but generate enormous amounts through the volume of transactions they catch. We should not long postpone seriously evaluating these proposals: adopting them will raise resources, of course; it will also help change the content and direction of “growth”.

We do hope that a substantial part of these enhanced flows will be channelled through multilateral development agencies, including the regional banks. These agencies have done exemplary work. They have pervasive acquaintance with countries and societies that need to be helped. Every dollar that they get, they can leverage to mobilize three dollars from private funds. And they manifestly do not have the resources that the tasks that have been assigned to them require. Can the current funds at the disposal of the IMF meet the typhoons that sweep financial markets these days? Are the funds and programmes of the United Nations not struggling for more resources? Surely the World Bank can expand its operations.

In their turn, the multilateral agencies should deepen the introspection they have commenced about the policies and conditions they have been prescribing. Were the conditions appropriate? Were they too onerous or too numerous? What was the assessment of these agencies of countries in South East Asia, what had they concluded about Argentina — just before these countries went into a tailspin? Surely, each of twelve

revival packages to a country must have been justified on the ground that it would lead to a string of improvements. What happened in fact? This introspection should probe deeper, as I said. And the results should be made public as well. Few measures will build confidence in the expertise of these vital institutions as doing so will.

Important measures have been proposed at the Conference. Important proposals have been advanced, important announcements made to enhance the flow of aid. Everyone has also stressed that the important thing now is to implement them. Sir, even as we urge closer monitoring of development programmes, we should set up a mechanism, a device for monitoring the implementation of what is agreed upon at our gatherings. In the last few years we have had the Rio Summit on the environment, and the one in Kyoto. We have had the conference on population and development in Cairo, the one on women in Beijing, on human rights in Vienna, on the social agenda in Copenhagen, on the habitat in Istanbul, there has been the UN meeting on small arms, the General Assembly has met and agreed upon Millennium Development Goals. We will soon be meeting in Johannesburg to consider ways to make development sustainable. We should task a group of experts to prepare an annual "Action Taken Report" - with a chapter per conference - that sets out the decisions that were taken at the conference, and what has been done in regard to each decision and goal.

Another factor affects the quantum of resources that are ultimately available for development: corruption. The donors complain that leaders and civil servants of the poor countries eat away the funds. The latter point out that the firms that bribe are from the rich countries, that the funds soon find their way back to banks and properties in the latter. Either way, concerted, co-operative action is required. After 9/11, information is being exchanged about financial operations of terrorist groups. Exactly the same sort of co-operation should be instituted to exhume mon-

neys spirited away from poor countries. To invoke bank secrecy laws in this regard, and simultaneously to engage in elaborate debates about amounts that can be made available for aid, is to mock the poor who have been robbed - as it is to mock taxpayers in the richer countries from whose contributions aid is being financed.

As important as the quantum of funds is access to markets of the North. Removal of tariff and subsidy protection in even a few sectors will release a vast flood of sustained resources for the South through exports: the subsidies to agriculture alone that are given in the rich countries exceed one billion dollars a day. You will recall that till just a few years ago India was dependent on food imports. Today, government godowns alone have more than sixty million tones of foodgrain stocks. That is far more than we require for food security. But as we cannot export them - because of non-tariff barriers and because of the effects subsidies in the potential markets have on prices there — the stocks are becoming a heavy burden on governmental finances. We must also bear in mind that acute misgivings have been expressed about many features of and about the impact of globalization. The one way to allay these is to ensure that there is globalization not only of markets in the South and of capital flows, but also globalization of equity and opportunity everywhere.

Mr. President, great emphasis has been placed in our deliberations on creating conditions that would enable and induce private capital to flow to developing countries. That is but right. And the fact is that many a developing country is striving today to become an attractive investment destination. Indeed, there is a competition to outdo each other in this regard. Our countries recognise that it is not enough to lift barriers to foreign direct investment. Today they actively woo it. Private capital will be effective - and it will be most naturally welcomed — when it works to produce goods that meet the felt needs of the people in those countries - rather than when it merely

replicates goods which have sold well in rich societies, and when it churns them out with technologies devised for the vastly different factor proportions of those latter countries. It will be effective - and it will be most naturally welcomed - when it comes for long-term engagement, rather than when it is merely seeking to profit quickly from differentials in interest rates or exchange rates.

There is also a telling irony. The reason the market is thought of so highly is that it compels all who enter it to be efficient. It exposes them to the peril of failure. Bearing risks is of the very essence of a market economy - and in the rich, developed countries private firms combat risk at every turn. But ever so often when these very firms come to developing countries, they demand - and are often able to wrest - agreements by which host governments take over the full risks that they may encounter down the road. We have placed great emphasis in our deliberations on good governance, and coherence. Good corporate governance is as important, as is coherence between the goals private capital pursues and the needs of our people. Fashioning performance criteria that will nail the conduct that needs to be altered, preparing an annual audit that documents what action has been taken on the results of each of the dozen conferences like this one that have been held during the last decade - there is enough work for all of us, it is work that is best done by our working together.

Mr. President, the United Nations and its allied bodies have a special and central role in this global engagement. We consider the multilateral processes we collectively generate within the United Nations, as in this Conference, as a global public good which we must preserve and advance. We regard the institution of the United Nations itself as the principal global public good in its own right, as both the symbol of universality and the vehicle for the delivery of our aspirations. Let us cherish it and strengthen its democratic working.

## TRADE, FINANCE AND DEVELOPMENT

*In his address to the Monterrey Conference, Rubens Ricupero, Secretary-General of the United Nations Conference on Trade and Development (UNCTAD), emphasised the need for 'coherence', particularly between national and international responsibilities. Lack of concerted action to bring the benefits of development to the vast majority of humanity that lives in the developing world would only increase the 'ravages of poverty', he pointed out. Following are extracts from his statement on the link between trade and finance, which together have a fundamental bearing on the course of development.*

"First, there are the institutional elements stemming from the spirit and the letter of the Ministerial Declaration on Global Coherence adopted at the Marrakech Conference, at the end of the Uruguay Round. These elements require multilateral approaches and actions to be jointly implemented by the international financial institutions and the WTO. The Doha Declaration adopted at the 4<sup>th</sup> WTO Ministerial Conference refers to this mandate in its Preamble. It reaffirms the goal of achieving "greater coherence" in the international economic system, although without identifying the means to achieve this goal. Many developing countries have stressed that the need for compatibility between financial and trade policies linked to multilateral loans has been forgotten. They argue that structural adjustment programmes imply commitments that go beyond the WTO disciplines, and that the unilateral trade liberalization they are asked to undertake removes a key bargaining chip - gaining concessions on market access - for subsequent trade negotiations.

Another element of the close relationship between trade and financing for development is almost a traditional one on the agenda of many developing countries that rely on commodity exports as the main source of financing. I refer here to the unresolved problem of the impact of declining international prices on the income of commodity exporters, a problem that cannot be minimized: as was the case some 30 years ago when this issue appeared in international negotiations at UNCTAD, it has affected the

lives of millions of people in numerous developing countries and virtually all the LDCs.

Other links between trade and financial policies need to be addressed because of their immediate impact on the development prospects of so many countries. Fortunately, the negotiating mandates adopted at Doha cover a broad spectrum of issues that refer to these concerns and therefore provide the opportunity to demonstrate, at the end of the Doha process, that the label "development agenda" can be made a reality by the outcome of the negotiations. An example is the liberalization of agricultural markets in developed countries, which is high on the Doha agenda and probably the one issue that raises the most expectations for developing countries. The use of agricultural subsidies and domestic support measures by industrialized nations - which continues to grow in rich economies and where the developing countries face unfair competition - represents a major distortion in the financing of development and, in many developing economies, exacerbates the negative effects of shrinking ODA. And it is yet another obvious example of incoherence in the international economic environment faced by developing countries, particularly those which - like Mexico - boast sound agriculture policies and are competitive exporters.

Similar reasoning can be applied to other trade showcases that generate what could be called "negative financing for development", such as market access barriers to developing coun-

tries' exports of goods and services. Here, I would be remiss not to mention that recent measures to stop the import of sensitive products or to subject negotiations on those products to complex mechanisms of consultation can send ominous signals about the prospects of securing trade liberalization through the new WTO negotiations. Those negotiations are nonetheless essential if the unfair imbalances that currently distort the system are to be redressed.

Finally, the Doha Work Programme of trade negotiations introduced two new bodies into the WTO institutional structure that have broad ramifications for development financing policies and that will be crucial in achieving the desired coherence in international actions. The new working groups on trade, debt and finance, and on trade and transfer of technology, have no negotiating mandates, but their relevance should not be underestimated. They provide developing countries with the opportunity to consider what they are negotiating at the WTO on trade rules in the context of debt and financial constraints and technological needs. Two outcomes are possible: first, the new trade rules could take these constraints into account and be realistically shaped to match development needs; second, since the WTO is not supposed to tackle all development needs, nor is it the sole forum where such needs are addressed, these new groups could identify issues to be dealt with by other international development organizations.

In my statement to the Preparatory Committee last October, I indicated that the timing of the Monterrey Conference deserved attention. I further noted that by the time the Conference opened, the evolution of the international economic situation would allow us to determine whether the recession that was visible last October would have a "V" or a "U" shape. The signs are still not totally clear, but many of them are positive and leave room for cautious optimism. I then said that the Conference would have additional and important elements stemming from the economic environment with which to enlarge its vision of financing for development. Indeed, as I have said, coherence also means envisaging multilateral and national policies in accordance with the changing economic climate. While for some rich countries, the recession may prove to be short and mild, for many developing economies, structural imbalances are only aggravated by these cyclical turbulences and require sustained support from the international community. We all live in an interdependent world, but for poor nations, one of the major imbalances derives from their greater vulnerability to external shocks. For them, interdependence means more dependence on external resources.

Now let me address the importance for developing countries, especially the LDCs, of external finance, whether in the form of investment or aid. In their endeavour to benefit from participation in an open international trading system, they must enhance their supply capacities for internationally competitive traded goods, for which increasing investment is crucial. But while the majority of developing countries rely primarily on domestic sources of finance for investment, domestic savings are usually insufficient; developing countries must, therefore, turn to external financing to secure the means for increasing their interna-

tional competitiveness. It is therefore imperative that the international donor community significantly increase the amount of ODA, in particular for those developing countries whose structural weaknesses made them dependent on this type of external financing.

Private capital inflows, and foreign direct investment in particular, have assumed increasing importance over the past decade as a source of external financing. Notwithstanding the inherent volatility of some modalities of financial flows, such flows can play an important role in complementing a country's domestic resources. However, the increases in private capital movements have important implications for development policies. Policies are important, not only to help to attract private flows to a greater number of developing countries, but also to maximize their contribution to development, in particular by building local export supply capacity and thus generating sufficient earnings to keep external imbalances at manageable levels.

But policies, as I mentioned at the outset, require coherence, and this includes coherence between the national and the international, the regional and the interregional. In this respect there is a pressing need for greater "regionalization" of monetary and financial engineering. The contribution that can be made by regional and sub-regional institutions to the work of global institutions should never be forgotten in our search for coherence. Regional trade and financial flows are increasingly important for the developing economies, and this applies to all regions - to Asia, where we see the beginnings of a co-operative mechanism in that direction; to Latin America, with its growing dependence on intra-trade; and to Africa, where awareness is rising of the need for more effective regional mechanisms. This is an-

other kind of coherence that should be more systematically used for the benefit of development and for supporting the integration of the developing countries into the global financial system. Mechanisms for regional monetary co-operation between Central Banks and banking supervisory institutions could be created or upgraded, for example. Similarly, the attraction of foreign investment could be enhanced through co-operation among national agencies to promote multinational development projects. In all these co-operative ventures, the support of the regional development banks, and ultimately of the Bretton Woods institutions, remains essential.

The Conference on Financing for Development should be considered as the beginning of an orderly process with a clear direction based on a solid agenda that includes all the major issues. UNCTAD, as the focal point within the United Nations for the integrated treatment of trade and development and for the interrelated treatment of issues in the areas of finance, technology, investment and sustainable development is, needless to say, ready to contribute to the follow-up and implementation of decisions agreed upon at Monterrey this week.

Our main purpose here is to embark on a complex and technical debate on how to enhance financing for development through adequate policies and institutional arrangements. But we must not overlook another dimension of our work. Financing for development is, in the last instance, an ethical challenge: ensuring that the intangible asset represented by financing is put to the service of humanity in general and not to that of a few. This is the only way to overcome the built-in dangers posed by massive poverty in the world. Including the ethical and indeed the human dimension in our deliberations will therefore be essential if we are to meet our ultimate objective."

## DEBT SUSTAINABILITY CRITERIA NEED A FUNDAMENTAL CHANGE

*Like many other developing countries, Kenya has experienced a net outflow of resources over the past several years. The main contributor to these outflows is the heavy debt service burden. Under the enhanced HIPC initiative, Kenya is among four countries classified as having sustainable debt levels. That has denied the country access to debt relief. In his address to the Monterrey Conference, Kenya's Minister for Finance, Christopher M. Obure, called for a fundamental change to the debt sustainability criteria. Funds released from such debt relief will be critical in funding core poverty reduction programmes. Following are extracts from the Minister's address, which present a snapshot of the hopes and challenges facing people in the African continent.*

"The UN Millennium Declaration adopted by the UN General Assembly endorsed the international development goals for 2015 and highlighted the task of mobilizing the financial resources needed to achieve these goals. In line with that declaration and the new African initiative under the New Partnership for Africa's Development (NEPAD), Kenya firmly believes in the need to reconfigure the global financial architecture and trade arrangements. In this process, Africa must not remain marginalised and should be firmly integrated into the world economy.

The major challenge confronting developing countries is the increasing levels of poverty. It is disappointing that little progress has been achieved in poverty reduction since the World Summit on Social Development held in Copenhagen in 1995. Meagre resources have so far been committed on reducing debt burden, improving market access, building capacity, tackling the HIV/Aids pandemic and other infectious diseases. Even after preparation of comprehensive Poverty Reduction Strategy Papers (PRSPs), resources have remained a constraint as development partners have not delivered on their commitments. We need a genuine approach to the fight against poverty.

The existing global financial system and the arrangements for financing development have demonstrated their inability to deal

adequately with the needs of developing countries. ODA flows to Africa declined substantially in the 1990s at a time when poverty was on the increase. More than 340 million people in Africa live on less than US\$ 1 a day at a time when the continent has to deal with the high incidence and consequences of HIV/Aids.

There is an urgent need to put in place a new framework to create the enabling conditions for developing countries to achieve high and sustainable economic growth. The new framework needs to emphasise more concessionary financing and greater use of grants.

Kenya strongly supports the call to industrialized countries to raise their ODA to meet the target of 0.7 per cent Gross National Product (GNP) over the next five years.

It is Kenya's view that conditionalities tied to the release of aid should be realistic, achievable and sufficiently flexible to take into account changing conditions and circumstances. We also advocate a more pragmatic approach in assessing achievement of targets to take into account overall progress rather than insistence on achievement of individual benchmarks. We urge the development partners and particularly the Bretton Woods institutions to be more sensitive to the needs of developing countries.

The current global trade arrangements have mostly benefited the industrialized countries. At

present, Africa's share of global trade is less than 2 per cent. It is unfair, for example that while industrialized countries continue to provide substantial subsidies to their agricultural sectors, they, together with the Bretton Woods institutions, make it a conditionality for support that developing countries liberalize their economies. This unfair situation makes it difficult for our agricultural exports to compete and for our agriculture to survive. We hope that, in the spirit of Doha, we shall see positive developments towards a reduction of these subsidies.

The current global economic system has resulted in high income inequalities. Rapid advances in telecommunications and information technology, and the increasing digital divide threatens to further marginalize developing countries and deny them the opportunities of globalisation.

This conference must build on the momentum achieved in Doha, which embraced a development round of trade negotiations. Kenya supports an inclusive multilateral trading system. We fully support the current initiatives aimed at providing increased market access for African countries such as the African Growth and Opportunity Act and the European Union/African, Caribbean & Pacific trade arrangements.

Kenya, along side other developing countries, has experienced a net outflow of resources over the

past five years. The main contributor to these outflows is the heavy debt service burden.

Under the enhanced HIPC initiative, Kenya is among four countries classified as having sustainable debt levels. Since, this has denied us access to debt relief. We call for a fundamental change to the debt sustainability criteria. Funds released from such debt relief will be critical in funding core poverty reduction programmes.

Africa faces urgent challenges which include the HIV/Aids pandemic, inadequate infrastructure and capacity building requirements.

Our efforts in tackling poverty have been undermined by the HIV/Aids scourge and other infectious diseases. Without an effective effort to overcome HIV/Aids, all our socio-economic development gains will be reversed. We will require massive resources to mount an effective multi-sectoral HIV/Aids programme in order to realize a more positive impact on HIV/Aids prevention and care.

We support the international initiatives focused on a comprehensive and long term partnership between governments, civil society, international organizations

and pharmaceutical companies in the fight against HIV/Aids. We call upon the international community to accelerate its support to the global fund on HIV/Aids, malaria, tuberculosis and other infectious diseases.

The poor state of infrastructure in Africa is a major impediment to economic development in the continent. Without good road works, railway systems, ports, reliable and affordable energy, good airports, telecommunication systems, water and sanitation, it is very difficult to attract private sector investment. The cost of building this infrastructure is colossal and is difficult to finance on a fragmented country by country basis. It is imperative to finance it through regional initiatives, including regional integration. We also see opportunities for combining ODA support and FDI through private public partnerships. If properly packaged, these investment opportunities will attract private sector participation.

Kenya recognizes that an important component of the financing for development is the mobilization of domestic resources. We have embarked on financial sector reforms in order to encourage domestic savings. These reforms

include liberalization of the financial sector with a view to broadening and deepening the financial markets and developing appropriate savings instruments.

To overcome the persistent implementation weaknesses, Africa needs support in building appropriate capacity to design and implement good policies, programmes and projects. Africa requires international support for its continuing efforts for comprehensive capacity building including basic education, institution-building, technical, professional and managerial skills at all levels.

Let me conclude by emphasizing that the Monterrey Consensus is an important step towards achieving the UN Millennium Goals. Kenya calls for genuine commitment and partnership between the developed and developing countries in the implementation of the Monterrey Consensus for mutual benefit of all parties in what can only be a win-win outcome. There is, however, need to agree on an effective mechanism to monitor the implementation of the outcome of this important international conference. Ultimately, our success will be measured by the extent to which we implement this consensus."

## JUMP-START FUNDING TO ATTAIN MILLENNIUM DEVELOPMENT GOALS

*Held at the initiative of the developing countries, the Monterrey Conference on Financing for Development (18-22 March, 2002) provided an opportunity to devise mechanisms and agreements that could help to reduce the shortcomings of globalization and to build-up the benefits it can provide - in the words of Chief Joseph Sanusi, Governor of the Central Bank of Nigeria. As the Chairman of the Group of Twenty-Four (G-24) developing countries, Chief Sanusi made a number of practical suggestions to jump-start funding for development. His statement to the Conference, reproduced below, touches on a number of areas including trade, aid, debt, and SDRs - within the context of building North-South bridges to help attain the Millennium Development Goals.*

"It is gratifying that this United Nation's Conference on Financing for Development is finally holding here in Mexico after many years of discourse between developed and

developing countries. This is an important occasion for the developing countries, and hopefully, a historical landmark. Twenty-five years have passed since the fail-

ure of the North-South dialogue in Paris on international economic cooperation and little or no significant discussion has taken place thereafter to engender comprehensive

international co-operation for improving the development prospects of developing countries. Within those twenty-five years, we witness the end of the competition among the major superpowers to align developing countries behind them. There has been an impressive growth of international trade and unilateral liberalization of international trade in developing countries.

Regional free trade arrangements have been established in both the North and the South. Private financial flows have become the main source of international financing. Several developing countries have emerged as significant economic international players. Impressive technical advances in communications and information technologies have been registered. A unified monetary system now covers most of Europe. More recently, persistent rally of civil society organisations in industrial countries has aroused the concern among the rich of the deteriorating conditions of poor countries; this has resulted in some modifications of their countries' policies, giving birth to the HIPC Initiative that is an important, even if still limited step, towards reducing unsustainable debt burden, built-up to a large extent from irrational lending and some private sector arrears turned into sovereign debt.

But despite these positive developments, we have also seen the deterioration of living conditions in many parts of the world, specially in developing countries and countries in transition. There is a secular deterioration in the terms of trade of commodity exporters. Massive financial crises have affected some emerging countries with increased frequency, disrupting for a considerable period of time improved economic prospects. Much of the African continent has been marginalized from world trade

and international investment. New uncontrollable pandemics affect mostly the poor. Prolonged domestic and cross border conflicts disfigures some regions and countries and the rise in terrorism imperils security in both rich and poor nations.

This Conference provides an opportunity to devise mechanisms and agreements that could help to reduce the shortcomings of globalization and to build-up the benefits it can provide. We must congratulate ourselves that it was largely the initiative of the Group of Seventy-Seven, with broad support in the General Assembly of the United Nations that launched this conference almost five years ago. The proposal was endorsed by the Intergovernmental Group of Twenty-Four developing countries (G-24) as early as September 1997. Let us hope that this global initiative of the developing world, embraced by developed countries, will be successful too in terms of concrete results, effective international co-operation to reduce poverty world-wide, enhance human development in our countries and facilitate the positive integration of all countries into a sustainable international economic system that benefit all regions, all countries and all peoples.

The fact that this Conference is taking place in this wonderful city of Monterrey is promising. Our generous host has been an active G-24 member for more than a quarter of a century, became an OECD member only some years ago. The country is also a G-20 member and one of the most successful in the North-South trade agreement. Mexico, permit me to say, has been active and successful at building bridges between North and South, at integrating itself into the industrial North while co-operating with its partners from the South to help increase developing countries

participation in the global decision-making.

The Group of Twenty Four developing countries has participated extensively in the preparatory work leading up to the International Conference on Financing for Development (ICFD). In addition to discussions during our Ministerial plenary meetings, Nigeria organized a Workshop last September to facilitate the drawing up of recommendations which might prove useful in articulating developing country positions at the Conference; and co-sponsored a Seminar with the Governments of Norway and Mexico and the Inter-American Development Bank to look into the role of regional development banks in financing for development.

The G-24 fully endorses the imperative of mobilizing domestic financial resources for development and providing enabling environments for the efficient use of capital, both domestic and foreign. While accepting that improving governance, reducing corruption, maintaining macro-economic stability, introducing effective regulation and supervision of the financial sector are necessary conditions, they will not prove to be sufficient conditions for success without effective complementary support for developing countries from the international community. Moreover, it must be recognized that many of the things that developing countries are expected to do are the result of development itself, rather than being preconditions for it.

The G-24 similarly endorses the recommendations for mobilizing international resources, both foreign direct investment and other private flows. There are, however, several issues not touched upon in this area, viz., how such flows can effectively come to countries that

do not provide big markets for the goods transnational companies produce? Also, how can these foreign direct investments be made more supportive of national development through a greater exercise of corporate responsibility. Attention must be drawn to the work done at the United Nations on establishing a "Code of Conduct" for transnational corporations that would serve to balance investor and host country protection arrangements.

The role of international trade as an engine for economic growth and development and the numerous recommendations for its enhancement are well presented in the Outcome document. These need to be operationalised. The movement of persons is also mentioned as one among a long list of the issues of particular concern to all. Yet, the severity of restrictions in the advanced countries on the movement of labour constitutes a glaring deficiency in the much lauded process of globalization and serves as a significant impediment to the ability of the developing world to expand its contribution to the growth of world output and international financial system. The connection between the gains from trade liberalization and how these gains are distributed must also be kept in mind. Growth of trade itself does not ensure, by far, proportional economic growth in developing countries, but the present slowdown of international trade affects primarily developing countries and their prospects for economic and employment growth. As primary producers, many commodity exporters have experienced a secular decline in their terms of trade along with the instability of commodity prices. In highlighting the commodity issue, special urgency must be accorded to the provision of low-conditionality compensatory financing mechanisms (through the IMF or otherwise), and for new

commodity price management schemes (through the World Bank or other institutions).

In the area of increasing international financial and technical cooperation for development, the crucial role of ODA and the need for a substantial increase have been significantly buttressed by recent World Bank calculations quantifying the funds required for meeting the goals set by the Millennium Declaration and other internationally agreed development targets. There is also an imperative for separating finance for development from humanitarian assistance from finance for global and regional public goods and for providing adequate funding for each of these causes.

In respect of these last-mentioned causes, the possibility of using "innovative" sources has acquired significance. In particular, the proposal for small taxes on short-term currency conversions ("Tobin tax" and its variants) seems to have reached a degree of consensus among some major industrialized countries that suggests a possibility of early and widespread implementation without having to wait upon further rigorous studies and without having to reach collective agreements encompassing all advanced countries. Another proposal deserves as serious consideration namely the application of a small tax on the sale of pharmaceuticals that could be used to subsidize the provision of essential drugs to poor people, or on the exploitation of the global commons or the exploitation of the mineral resources of the sea-beds.

To improve aid effectiveness, the "transaction costs" of aid delivery need to be reduced. It is essential in this context to encourage the harmonization of bilateral and multilateral donor policies and procedures, the co-ordination of disbursement and delivery

mechanisms and the application of "common pooling" arrangements whereby donors would provide direct budgetary support on the basis of programs developed under the leadership of the recipient country instead of tying their aid to specific projects selected by donors without regard to the country's own priorities.

Also essential is the need to give substance to the concept of "ownership" by calling for an independent evaluation of donor performance at the level of the individual recipient country. This proposal need not have to wait for global agreement, since individual donors, or a "like-minded" group of them, could offer themselves for such evaluation.

The use of special drawing rights allocations for development purposes is mentioned but counterbalanced by reference to taking into account the global need for liquidity at the international level. No such need was vouchsafed when agreement was reached to make an "equity allocation" equal to the entire outstanding amount of SDR 21 billion and whose implementation now awaits approval by the legislature of only one country that exercises a veto on the decision. As this case illustrates, the Articles of Agreement of the IMF are not unalterable. Nevertheless, the proposal for the SDR allocated to rich countries from the Special One-Time Allocation being donated to a development fund merits full support from the international community to jump start required funding to attain the Millennium Development Goals.

The external debt issue must be related to the application of the rule of law under which official creditors cannot decide on their own claims, judgements on debt workouts should be made by independent arbiters and the income

earning capacity of the sovereign debtor is not compromised. In the case of private creditors, the exploration of “standstill” mechanisms, such as those proposed by the IMF, should be pursued as a first step towards evolving a rule-based framework that could eventuate into an international bankruptcy regime. We do not believe that final decision on standstills should reside with the IMF, who is also a creditor and whose Board and Management have a primary obligation to safeguard its patrimony.

Additional efforts are required to overcome shortcomings of the HIPC Initiative. A more realistic

assessment should be made of the amount of debt reduction needed for most countries to stay on a sustainable path of growth and poverty reduction. Additionally, it should be recognized that debt relief is not enough to overcome the conditions that led to the debt overhang to start with. It must be complemented with extra resources and an improved performance in the recipient countries to induced development. The donation of SDRs by rich countries and additional sales of gold from the IMF reserves as well as active industrial country contributions to the World Bank Trust Fund could enhance a satisfactory implementation of realistic debt cancellation,

which should not be considered as ODA.

In the global economic governance area, IMF quota formulas should be revised in order to raise the voice and vote of developing countries in decision-making. An oversight role for ECOSOC is proposed to bring the United Nations into a global governance role that is essential for promoting the coherence and consistency of the international monetary, financial and trading systems.

Lastly, there would be need for a follow-up of decisions taken in this Conference.”

## POOR FINANCING THE RICH

*Sounds amazingly cruel. But that is the truth, argues Ann Pettifor of Jubilee Research, the successor to Jubilee 2000. She was elected by NGOs to represent them at a Round Table with Heads of State in Monterrey. In the following statement she delivered at a UNDP seminar on “Development Effectiveness” during the Monterrey Conference on March 21, she explains how this financing is taking place.*

“For the international Jubilee 2000 movement there is a central irony to the debate on finance for development being conducted here at Monterrey. The irony is this: we are discussing ways in which the rich world can help the poor world, when in fact it is the poor world that is financing and sustaining the rich world.

Let me explain. Each day the poor world lends its environment to finance “supersistent” as opposed to subsistent livelihoods for the rich countries.

If we were to peel off the proportion of wealth of G-7 industrialised countries that relies on unsustainable consumption, per person, of fossil fuels, it would add up to between \$13 trillion and \$15 trillion per year. For every day that people in the rich world eat up fossil fuels over and above the threshold for

sustainable consumption, they accumulate de facto an ecological, or more precisely, carbon debt.

In real terms that debt is counted in the accumulation of disruptive greenhouse gases in the atmosphere. But, it also has a very real economic footprint. Already the economic damage attributable to climate-change-driven natural disasters has been put at over \$300bn per year. The failure to properly capture costs in poor countries means that figure could easily be doubled.

But the poor countries are not just financing the development of the rich countries by giving away their share of environmental resources, and bearing the cost of unsustainable rich country consumption; they are also literally financing the development of, e.g. the United States – through debt

repayments, but above all, through capital flight.

Martin Wolf of the Financial Times argued a couple of weeks ago that the US’s stock of net liabilities amounts to \$5,800 bn. This amounts to 46 per cent of US GDP and about 15 per cent of the world’s GDP. Of these liabilities the US trade deficit last year hit \$392 bn. We know that Japan, most Asian developing countries, oil exporters and the EU contributed \$210bn towards financing this deficit; towards financing US consumption and development.

But this leaves a hole of around \$182bn – the amount the US needs to balance its books. Where does it come from? Wolf and many other economists believe that the US deficit is financed largely by capital flight from poor countries.

So the poor are financing the rich – and they don't even know they are. They think they are poor, and they need help from the rich. Little do they that it is they, the poor, who are financing the development of rich countries.

This for us is the irony at the heart of this conference. Until we reverse these flows; until we in the rich countries limit our consumption of the earth's scarce resources, and start to repay our ecological debts; there will be no justice. Until the rich start financing their own development, and stop robbing the poor – there will be no development in poor countries. Above all, until these injustices are reversed, there will be no peace."

*Reacting to statements by Paul O'Neil, US Treasury Secretary at a press briefing during the Monterrey Conference, about US concern over situation in Argentina and how the US had supported Argentina through the IMF, Ann Pettifor had the following to say:*

"I have come straight from Buenos Aires to Monterrey, and can tell you that the people of Argentina need the President of the United States to admit grievous culpability; not meaningless compassion. The US, by endorsing the \$63 billion of loans to Argentina effectively financed escape mechanisms for Argentina's elites. Argentina's fat cats have taken the \$63 billion and

exported it as "capital flight" - to safe havens - in the United States, amongst other places.

The poor of Argentina have been left with this growing mountain of debt - and will be repaying this "debt" which has financed the rich, at usurious interest rates.

Argentina does not need tears and sorrow; she needs concrete US and IMF help to impose capital controls and stop the instantaneous outflow of hard currency from the Central Bank - the unpatriotic and selfish capital flight of Argentina's elites".

## DEVELOPMENT FINANCE SUMMIT A FIASCO, SAY CAMPAIGNERS

*The following reaction to the Financing for Development Conference held in Monterrey, Mexico (18-22 March 2002) has been taken from an assessment made by the London-based **Bretton Woods Project**, which monitors the activities of the World Bank and the International Monetary Fund*

The International Conference on Financing for Development ended on March 22 in Monterrey with few new initiatives to achieve the 2015 development goals. Civil society groups organised their own 'Foro Global' ahead of the Conference, challenging the so-called 'Monterrey Consensus'.

By the time officials and civil society representatives from all parts of the world gathered in Monterrey there was little doubt the Conference would be largely a failure. The outcome of the Conference, known as the 'Monterrey Consensus' had been drafted in preparatory committees and was not subject to further negotiation, which led many civil society organisations to question the wisdom of their participation in official events. About

700 hundred of them attended the 'Foro Global' that was held ahead of the Conference. It denounced the official agreement, saying it failed to offer new mechanisms to mobilise new financial resources to achieve the Millennium Development Goals.

Indeed the 'Monterrey Consensus' is considered a failure, if not a set-back, by many participants to the Conference, including some Southern and European governments. In early March European officials had expressed concerns about the process and its outcome, highlighting US reluctance to make any new bold commitment. The Mexican government was also described as pressuring G-77 countries to keep a low profile, especially on the issue of debt relief.

Unilateral pledges made by the US and the European Union in advance of the Conference have received mixed reactions. George W. Bush's request to the Congress for a ten billion dollar aid increase over three years has provoked questions and criticism as well as some cautious support. There is no guarantee that the money will not be allocated following highly political criteria in the US crusade against terrorism. Moreover, the plan having been clearly designed to boost private foreign investment, some groups such as Globalization Challenge Initiative are concerned that the money will go back to US corporations.

Bush also reiterated the controversial US proposal to convert into grants half of IDA (International

Development Association) concessional loans. Many European governments and NGOs have opposed the proposal. Their main concern is that a large grants scheme would deplete IDA's resources over time. NGOs expressed doubts about the implications of and motives behind the US proposal.

Supporters of the proposal have argued that it could prevent impoverished countries building up unsustainable debt. Though a final decision on the IDA replenishment was supposed to be reached early in 2002 to leave time for national legislatures to approve the funds later in the year, discussions appear to be deadlocked and no

compromise was expected to be reached during the Monterrey Conference.

The agreement for all European Union countries to commit to spend 0.39 per cent of their national income on foreign aid was regarded by European NGOs gathered at the Foro Global as a last minute recognition by the EU that "the lack of concrete commitments for achieving global poverty eradication and development goals undermines the relevance of the so-called Monterrey Consensus". They called this announcement and the US initiative, mere "face-saving reactions".

In a statement read to the official Conference Plenary, Foro Global representatives presented a range of proposals in stark contrast to the lack of vision and concrete outcomes from the official conference. Demands and proposals include: debt cancellation for Southern countries and a fair and transparent arbitration process, implementation of a tax on currency transactions to mobilise new resources, and fulfilment of the 0.7 per cent of GDP target for foreign aid. NGOs also claim that the World Bank, the IMF, the WTO as well as national and transnational corporations should be accountable to the UN Commission of Human Rights.

## TWO NEW SOUTH CENTRE PUBLICATIONS ON FINANCING FOR DEVELOPMENT

The South Centre has released two new publications, to coincide with the Monterrey Conference on Financing for Development (18 - 22 March, 2002).

The first publication is entitled ***Financing for Development beyond Monterrey: Contributions to a South Agenda***. The purpose of this 188-pages publication is to present some of the ideas worked on by the South Centre to assist the Group of 77 during the preparatory process for the Conference. Issues raised and dealt with in these documents remain highly topical and will be relevant in the follow-up process which is meant to give substance to the "Monterrey Consensus".

The second publication, entitled ***The Third World Debt Crisis: A Continuity of Imperialism***, by Taimoon Stewart, appears in the Centre's "South Perspectives Series" which comprises authored policy papers and analyses on key issues facing developing countries. Insufficient attention has been devoted to many systemic and structural issues, which will need to be addressed in any serious quest for solutions. The study presents an analysis of the causes of recurring debt crises on the periphery of the world economy over the last two centuries, and reviews historical experience to discern commonalities. The lessons and conclusions could be useful to developing countries' continuing collective efforts to deal with the issue of external debt.

The two publications can be accessed on the South Centre website, or copies can be requested from the South Centre.



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