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Sistema Econômico  
Latino-Americano e do Caribe

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Système Economique  
Latinoaméricain et Caribéen

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# **The Monterrey Consensus Six Years Later and Financing for Development in Latin America and the Caribbean**

Base Document

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**F O R E W O R D**

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*This document – prepared by the Permanent Secretariat of SELA – is fundamentally aimed at encouraging debates among the representatives of SELA's Member States within the framework of the Regional Dialogue on Financing for Development and Foreign Debt ahead of the UN High-Level Meeting of to review the Implementation of the Monterrey Consensus, to be held in the headquarters of the organization on 20 June 2008.*

*This study contains three major sections, preceded by an introduction. The first section summarizes the main actions foreseen in the Monterrey Consensus. The second section assess the views of various relevant international actors – the U.S. government, regional groups such as the European Union and the Rio Group, international agencies and institutions and some non-governmental organizations – on the compliance with the commitments as regards financing for development assumed by the international community in Monterrey in March 2002. The third section makes an analysis of various indicators corresponding to Latin America and the Caribbean in order to evaluate the performance as regards financing for development in the region over the last few years. Finally, the conclusions of the study sum up the most important elements concerning this subject and propose possible actions as regards the issue of financing for development.*

## **I. INTRODUCTION**

The Monterrey Consensus was adopted during the International Conference on Financing for Development which took place in the city of Monterrey, Mexico, from 18 to 22 March 2002, under the auspices of the United Nations (UN).

This consensus was based on the premise that the challenges faced by financing for development required a global commitment and response. Such a response entailed a new “partnership” among developed and developing countries. The commitments taken on by the international community as part of the Monterrey Consensus were grouped in six leading actions or pillars: i) mobilizing domestic resources; II) attracting international resources flows; III) promoting international trade as an engine for development; IV) international cooperation; v) sustainable management of the external debt, as well as debt relief efforts; and vi) enhancing the coherence and consistency of the international monetary, financial and trading systems.

The Monterrey Consensus states that each country has primary responsibility for its own economic and social development. But at the same time, it is absolutely necessary to promote a fully inclusive globalization process. Based on this, it recognized that there was a need and an opportunity for designing policies and measures – both at the national and the international levels – which should be formulated and implemented with an active participation of developing countries so as to help them to respond effectively to the challenges posed by globalization.

This document is fundamentally aimed at encouraging debates among the representatives of SELA's Member States within the framework of the Regional Dialogue on Financing for Development and Foreign Debt ahead of the UN High-Level Meeting of to review the Implementation of the Monterrey Consensus. This study contains three major sections, preceded by an introduction. The first section summarizes the main actions foreseen in the Monterrey Consensus. The second section assess the views of various relevant international actors – the U.S. government, regional groups such as the European Union and the Rio Group, international agencies and institutions and some non-governmental organizations – on the compliance with the commitments resulting from the Monterrey Consensus. The third section makes an analysis of various indicators in order to evaluate the performance as regards financing for development in Latin American and Caribbean countries over the last few years. Finally, the conclusions of the study sum up the most important elements concerning this subject and propose possible actions to be undertaken by SELA as regards the issue of financing for development.

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### II. MAIN ACTIONS OF THE MONTERREY CONSENSUS

As indicated above, the Monterrey Consensus foresees six lines of actions, in which the countries should work jointly in order to encourage economic and social development among the broadest sectors of the world's population. Obviously, the ultimate objective of economic growth should be to eradicate poverty and attain sustainable development.

#### 1. Mobilizing domestic financial resources for development

One of the fundamental challenges faced by developing countries is to channel their domestic resources towards productive activities. For this reason, it is necessary to mobilize domestic savings, both public and private, towards those activities leading to increased productivity, particularly increased production capacity. According to the Monterrey Consensus, a crucial task is to enhance the efficacy, coherence and consistency of macroeconomic policies, which – along with an adequate institutional framework – should lead to the creation of domestic environment that encourages investments.

The consensus foresees a commitment to adopt appropriate economic policies and regulatory frameworks in a manner consistent with national laws to encourage public and private investments. Nevertheless, it recognized that due account should be taken of the particular conditions of each country. One of the fundamental commitments to improve governance<sup>1</sup> was to fight corruption, which diverts substantial amounts of resources away from productive activities. The Monterrey Consensus defined sound macroeconomic policies as those aimed at sustaining high rates of economic growth, full employment, poverty eradication, price stability and sustainable fiscal and external balances to ensure that the benefits of growth reach all people, especially the poor. It was also vital to promote investments in basic physical and social infrastructure, as well as in social protection networks, health and education.

The consensus also recognized the need to strengthen and develop domestic financial markets, so as to encourage an orderly development of capital markets, by promoting sound banking practices and strengthening regulatory systems.

#### 2. Mobilizing international resources for development

International capital flows, particularly foreign direct investment (FDI) can be vital complements to economic development efforts, according to the Monterrey Consensus. FDI flows contribute toward financing development over the long term, and have turned themselves into mechanisms to encourage knowledge and technology transfers as well as job creation, and to strengthen the countries' tax base.

To attract and enhance these inflows, countries need to ensure a sound macroeconomic environment and to achieve a transparent, stable and predictable investment climate, with proper contract enforcement. The Monterrey Consensus recognizes that while governments should be responsible for generating an environment that encourages investments, investing businesses, for their part, are also expected to engage as partners in the development process. To this end, it is necessary for investors to take into account not only the merely financial aspects, but also issues such as economic development

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<sup>1</sup> Governance: Art or way of governing aimed at achieving sustainable economic, social and institutional development, while promoting a healthy balance among the State, civil society and market economy.

sustainability, environmental preservation and protection, and other implications as regards social equity. In that spirit, the consensus invited banks and other financial institutions to foster innovative financing approaches, and welcomed all efforts to encourage good corporate practices.

The countries agreed to support public and private sector financing mechanisms, both debt and equity, to benefit in particular small and medium-size enterprises. They also agreed to promote initiatives to improve transparency and the information about financial flows, as well as measures to mitigate the negative impact of excessive volatility of short-term capital flows. In this connection, the countries considered that due account should be taken of their varying degrees of national capacity as regards crisis management, accumulated debt levels, currency risks, and institutional development of regulations.

### **3. International trade as an engine for development**

According to the Monterrey Consensus, a rule-based, open, non-discriminatory multilateral trading system can substantially stimulate economic development worldwide. This agreement reaffirmed that trade liberalization and the establishment of appropriate institutions and suitable policies were necessary to increase global trade, but it also recognized the possibility for developing countries to apply certain barriers to trade in key sectors for their economies.

To ensure that world trade supports development to the benefit of all countries, the consensus encouraged the members of the World Trade Organization to implement the results of its Fourth Ministerial Conference, held in Doha, Qatar, from 9 to 14 November 2001. In addition, an agreement was reached to implement the commitments made in the Doha Conference to address the marginalization of the least developed countries (LDCs) in the multilateral trade system.

As far as regional integration is concerned, the Monterrey Consensus stated the commitment to enhance the role of integration processes so as to contribute to build a better world trading system. The consensus also urged international financial institutions, including regional development banks, to support projects that promote sub-regional and regional integration.

It also called on developed countries that have not already done so to work towards the objective of duty-free and quota-free access for all least developed countries' exports, as envisaged in the Programme of Action for the Least Developed Countries adopted in Brussels, and to intensify efforts to provide greater trade facilities to these least developed countries.

The consensus invited the governments and their multilateral and bilateral financial and development institutions to expand and coordinate their efforts, with increased resources, for gradually removing supply-side constraints; improve trade infrastructure; diversify export capacity and support an increase in the technological content of exports from LDCs. In addition, it stated that multilateral assistance is also needed to mitigate the consequences of depressed export revenues of countries that still depend heavily on a limited basket of products for their sales abroad.

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### 4. Increasing international financial and technical cooperation for development

Official development assistance (ODA) plays an essential role as a complement to other sources of financing for development, especially in those countries with the least capacity to attract private direct investment. According to the Monterrey Consensus, ODA can be critical for improving the economic environment for private sector activity and is also a crucial instrument for supporting education, health, public infrastructure development, agriculture and rural development, and to enhance food security. For many poor countries, ODA is still the largest source of external financing and is critical to the achievement of the development goals and targets of the Millennium Declaration. Effective partnerships among donors and recipients, in line with national development plans, are necessary to ensure ODA effectiveness.

The consensus recognizes the need to increase ODA and other resources so that developing countries can achieve development goals. In this context, it urged developed countries that have not done so to make concrete efforts towards the target of 0.7% of gross domestic product (GDP) as ODA to developing countries and 0.15% to 0.20% of GDP of developed countries to least developed countries (LDCs). The consensus also called on recipient and donor countries, as well as international institutions, to strive to make ODA more effective, emphasizing the need to intensify efforts to: harmonize their operational procedures, untie aid, enhance the absorptive capacity and financial management of the recipient countries, use development frameworks designed by the recipient countries, promote the use of ODA to leverage additional financing, strengthen triangular cooperation, and improve ODA targeting to the poor.

The Monterrey Consensus stated that multilateral and regional development banks continue to play a vital role in serving the development needs of developing countries. These institutions should contribute to providing an adequate supply of finance to countries that are challenged by poverty, follow sound economic policies and may lack adequate access to capital markets. They should also help to mitigate the impact of excessive volatility of financial markets.

### 5. External debt

Sustainable debt financing is an important element for mobilizing resources for public and private investment. In this connection, both debtors and creditors must share the responsibility for preventing and resolving unsustainable debt situations, according to the Monterrey Consensus.

External debt relief can play a key role in liberating resources that can then be directed towards productive activities. Therefore, as stated in the Monterrey Consensus, debt relief measures should, where appropriate, be pursued vigorously and expeditiously, including within the Paris and London Clubs and other relevant forums. According to the consensus, the enhanced Heavily Indebted Poor Countries Initiative (HIPC) provides an opportunity to strengthen economic prospects and poverty reduction efforts of its beneficiary countries. But these countries should take the necessary policy measures to become eligible for the initiative and benefit from it.

The consensus stressed the need for the International Monetary Fund (IMF) and the World Bank (WB) to consider any fundamental changes in countries' debt sustainability caused by natural catastrophes, severe terms of trade shocks or conflicts, when making policy recommendations, including for debt relief, as appropriate.

While recognizing that a flexible mix of instruments is needed to respond appropriately to countries' different circumstances, the consensus emphasizes the importance of putting in place a set of clear principles for the management and resolution of financial crises that provide for fair burden-sharing between public and private sectors and between debtors and creditors. It encourages donor countries to take steps to ensure that resources provided for debt relief do not detract from ODA resources intended to be available for developing countries.

## **6. Addressing systemic issues**

In order to complement national development efforts, the consensus recognizes the urgent need to enhance coherence, governance, and consistency of international monetary, financial and trading systems. In this regard, it underscores that efforts were under way to reform the international financial architecture; but such efforts need to be sustained with greater transparency and the effective participation of developing countries. Strong coordination of macroeconomic policies among the leading industrialized countries is critical to achieve greater global stability and reduced exchange rate volatility.

The multilateral financial institutions – particularly the International Monetary Fund – need to continue to give high priority to the identification and prevention of potential crises and to strengthening the underpinnings of international financial stability. In this regard, the Monterrey Consensus stresses that, in providing assistance, multilateral organizations should take into account social costs of adjustment programmes, which should be designed to minimize negative impact on the most vulnerable segments of society. Likewise, it is essential to ensure the effective and equitable participation of developing countries in the formulation of financial standards and codes. It is also crucial to ensure their implementation, on a voluntary and progressive basis. The consensus also underscores the need to ensure that international financial institutions – including the IMF – have a suitable array of financial facilities and resources to respond to difficulties in a timely and appropriate way, so that regional reserve funds and other swap arrangements among groups of countries can complement the efforts of multilateral financial institutions.

Good governance at all levels is also essential for sustained economic growth, poverty eradication and sustainable development worldwide. The consensus stresses the need to broaden and strengthen the participation of developing countries in international economic decision-making and norm-setting. For its part, the World Trade Organization (WTO) should ensure that any consultation or negotiation is representative of its full membership. The Bank for International Settlements, the Basel Committee and the Financial Stability Forum should continue to enhance their outreach and consultation efforts to include developing countries into its systematic activities. The Monterrey Consensus also stated that ad hoc groupings that make policy recommendations with global implications should continue to improve their outreach to non-member countries.

To strengthen the effectiveness of the global economic system, the consensus encouraged the following actions: i) improve the relationship between the United Nations and the World Trade Organization; ii) support the International Labour Organization; iii) strengthen the coordination of the United Nations system with other multilateral organizations; iv) mainstream the gender perspective into development policies; v) strengthen international tax cooperation; and vi) promote the role of the regional commissions and the regional development banks.

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Finally, the Monterrey Consensus attached top priority to reinvigorating the United Nations system, as a fundamental element to the promotion of international cooperation for development.

### III. ASSESSMENT OF VARIOUS ACTORS ABOUT THE IMPLEMENTATION OF THE MONTERREY CONSENSUS

This section summarizes the main views of various relevant international actors – such as the U.S. government, the European Union, the Rio Group, various inter-governmental organizations, as well as civil society groups and forums – about the implementation of the Monterrey Consensus. For this purpose, a thorough analysis was made of the documents submitted by these actors during the sessions held this year, as part of the preparatory process for the United Nations International Conference to follow up financing for development to examine the implementation of the Monterrey Consensus.

It should be pointed out that not all the actors participating in this preparatory process have made a complete assessment of each one of the six pillars or priority actions of the Monterrey Consensus. As a matter of fact, only the U.S. government, the EU and the Rio Group have expressed their views about all of the six actions. The following table lists the actors that have assessed the implementation of the Monterrey Consensus – whose views have been analyzed for this study – as well as the subjects on which they have expressed an opinion.

**TABLE N° 1**

**Opinions expressed by relevant international actors on the various issues of the Monterrey Consensus during the preparatory process for Doha**

Countries, international entities and non-governmental organization which have expressed an opinion	Issue of the Monterrey Consensus					
	I	II	III	IV	V	VI
<b>States and groups of States</b>						
United States	x	x	x	x	x	x
Union European	x	x	x	x	x	x
Rio Group	x	x	x	x	x	x
<b>International organizations</b>						
UNCTAD	x	x			x	x
ILO	x					x
WTO			x			
OECD			x			
ECLAC	x		x	x		x
<b>NGOs</b>						
Justice, Peace & Integrity of Creation Missionary Oblates		x				
Women's Environment & Development Organization		x				
LDC Watch				x		
AFRODAD and other organizations					x	
LATINDADD					x	
Opinion shared by NGOs Medical Mission Sisters and New Rules for Global Finance						x

## 1. Mobilizing domestic financial resources for development

For the United States,<sup>2</sup> the commitment of mobilizing domestic resources is in line with the idea that achieving economic and social development is the primary responsibility of each country. The U.S. underscores that there has been significant progress in this regard, based on a solid economic growth over the last few years and an improvement in macroeconomic management in developing countries. This has allowed for improving the overall environment for business and expanding domestic resources that have been mobilized towards productive activities.

The U.S. considers that corruption continues to be a serious problem diverting substantial public resources. In addition, financial markets are becoming more and more complex and regulatory mechanisms have not evolved at the same pace. The challenge, according to the U.S. government, is to increase both human and financial resources, so that developing countries can enhance and improve their regulatory capacity in order to reduce risks of financial crises.

For its part, the European Union<sup>3</sup> considers that a favourable and constructive domestic environment is a requirement for an effective mobilization of domestic financial resources and international inflows. The EU says important steps have been taken in this connection, although have not had the same scope in all the countries. As the U.S., the EU says that corruption is a scourge that affects the legitimacy of governments and diverts already limited resources. In the opinion of the EU, the positive economic performance that has been seen recently is partly due to a favourable global environment, but it would not had been possible without the generalized good macroeconomic practices which have contributed to keep both internal and external stability in developing countries.

According to the EU, it is necessary to manage natural resources and the income obtained from them in a cautious way, in order to avoid the "resource curse". There are signs indicating that the current increase in international prices of natural resources is being handled in a better way than on previous occasions. Referring to the issue of migration, the EU says that positive external factors in countries of origin (remittances) must be maximized, and the negative effects (brain drain) must be reduced. According to the EU, it is necessary to make remittances complement domestic savings so that they can contribute to economic development. The EU commits itself to encourage and support partner countries to build and improve their capacity for mobilization of domestic resources.

The Rio Group<sup>4</sup> shares the view that each country has the primary responsibility for its own economic development and reiterates the commitment to incorporate policies for social development and economic growth which favour private investment and dignified employment. In its opinion, it is necessary to consolidate the support and cooperation of the international community in order to endorse the efforts made by countries to attain economic development. The areas which require more cooperation are: i) international financial stability to favour investment inflows to the region, ii) increased trade opening, and iii) improvements in international coordination to anticipate and understand the challenges posed by the current globalization process.

The Rio Group thinks it is necessary to make progress in several areas. First of all, fiscal collection must be improved. In the medium term, an increase in tax income depends on

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<sup>2</sup> U.S. Government (2008a).

<sup>3</sup> European Union (2008a).

<sup>4</sup> Rio Group (2008a).

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the efficiency of fiscal systems, an expansion in the tax base, and an improvement in the effectiveness of public expenses. It is also necessary to strengthen the national financial sector with a view to expanding it in order to allow for access to traditionally marginalized sectors. According to the Rio Group, this is crucial for the development of small- and medium-sized enterprises. In addition, the Rio Group reiterates that it is necessary to further strengthen educational systems and macroeconomic policies for the creation of jobs.

The Rio Group countries are committed to transparency in public management, the fight against corruption, and international judicial cooperation. In this connection, they urge a those countries that have not done so yet to sign and ratify the UN Convention against corruption.

For the UNCTAD,<sup>5</sup> the financial situation in many developing countries has changed since 2002, when the Monterrey Consensus was agreed to. Even so, for this organization, these changes have not been the result of the compliance with the recommendations made in the consensus, but are rather due to the high level of dynamism seen in the global economy. In this connection, a correction in global imbalances involves risks, such as a recession and a possible reversion in the progresses made over the last few years. In order to avoid this, the UNCTAD says that it is necessary to make a coordinated macroeconomic policy effort and to review national policies so as to improve domestic financial conditions to encourage productive investment. Nevertheless, there isn't a general consensus on what could be a series of favourable domestic conditions and which would be the role to be played by domestic policies in this regard. According to the UNCTAD, the Monterrey Consensus failed to recognize a fundamental lesson learnt over the last 20 years of orthodox reforms – i.e., the need to review the role played by fiscal and monetary policies in encouraging capital accumulation and growth, and to reconsider the possible contributions that sectoral and institutional policies can make in the processes of structural change and technological improvement. According to the UNCTAD, the question of to what extent developing countries must increase their investment rates based on domestic resources is now being considered from a different perspective, mainly due to the increase in raw material prices. The challenge for developing countries is to translate these recent gains in the relation of the terms of trade exchanges into a lasting progress, through investment and an increase in the productive capacity.

For the International Labour Organization (ILO),<sup>6</sup> clear statistical evidence has been gathered over the last few years that economic growth does not automatically lead to poverty reduction if there is no creation of jobs and mechanisms for income redistribution. For this organization, the time has come to define a basic set of social security benefits, which has been called "social security floor". This basic set must be ensured by all the countries as soon as possible and must include the following elements: i) universal access to basic health benefits with a pluralistic system that includes both private and public health institutions financed by taxes and insurances; ii) guaranteed access for children to basic social services such as education, health and housing; iii) guaranteed coverage of basic needs for poor or unemployed people; and iv) guaranteed social security income for elderly or handicapped people through pensions.

According to the ILO, national development strategies must give priority to those policies that tend to progressively create decent jobs for all the sectors of society and to mobilize resources to fight poverty. It is necessary to adopt an integral and coherent labour policy

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<sup>5</sup> UNCTAD (2008a).

<sup>6</sup> International Labour Organization (2008a).

approach aimed at generating employment and ensuring social security. This organization concludes that without a decent job, workers cannot have good living standards; and without social protection, workers cannot have either a decent job or good living standards.

Finally, for the ECLAC,<sup>7</sup> access to financing for the countries of Latin America and the Caribbean has been affected by historically low national savings rates, the lack of strength in financial systems – mainly in short-term bank operations – and the poor development of capital markets. In order to promote mobilization of domestic resources, it is necessary to adopt a series of economic and financial policies aimed at developing financial markets and encouraging savings and long-term financing. According to ECLAC, reduced savings rates and deficiencies in the financial system are the main cause for low financing rates, both in households and enterprises throughout Latin America and the Caribbean. ECLAC considers it is crucial to develop microfinances in the region, and to this end it is necessary to outline public policies that allow for improving the capacity of relevant institutions to attract resources.

## 2. Mobilizing international resources for development

In the opinion of the United States,<sup>8</sup> there has been a significant increase in Foreign Direct Investment (FDI) flows towards developing countries since 2002 and it has been a crucial factor in financing for development. They are proof of each country's responsibility to establish a regulatory framework and a positive economic environment to attract FDI flows.

In 2002, the U.S. announced the creation of the *Millennium Challenge Account*, which focuses on providing assistance to projects in nations with a fair government, that seek to invest in their people and encourage economic freedom. It also created the *Millennium Challenge Corporation* (MCC) to support policy reforms associated with an improvement in the environment for businesses. In May 2007, in association with Africa, the *Africa Financial Sector Initiative* (AFSI) was launched to provide technical assistance and to mobilize capital to help African nations to strengthen their financial markets and to mobilize capital for African entrepreneurs. The *United States Agency for International Development* (USAID) has joined efforts with private sector institutions to create the *Global Commercial Microfinance Consortium* with a view to providing local financing to microfinance institutions.

The European Union<sup>9</sup> considers that sustainable and socially responsible FDI is an important instrument to promote economic growth and social development. In the EU's opinion, the creation of a domestic and international environment that helps to maintain steady FDI flows continues to be a challenge. Similarly, the EU believes that UNCTAD's *Investment Policy Review* and the OECD's *Policy Framework for Investment* are valuable mechanisms to understand business environments. The EU thinks that the FDI must not be encouraged by reducing the loosening labour, environmental and health standards in recipient countries, and that regional cooperation can have positive effects on FDI flows. According to the EU, special attention should be paid to those private flows that can generate public liabilities and they must be taken into consideration in debt sustainability analyses.

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<sup>7</sup> ECLAC (2008).

<sup>8</sup> U.S. Government (2008b).

<sup>9</sup> European Union (2008b).

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The European Union considers that remittances play an important role in development and poverty reduction. They are considered to be the most stable flows of external financing, and are generally characterized by the fact that they can be supplied in an immediate and substantial way in face of emergency situations. Remittances flows account for more than double the amount of ODA flows and almost two-thirds of FDI.

For their part, the Rio Group<sup>10</sup> countries consider that private investment must play a fundamental role in development. With respect to the issue of remittances, the Rio Group believes that they are private capital flows resulting from people's work, and in view of this, it reiterates that remittances must not be related in any way to ODA or the North-South cooperation. Based on this, the Rio Group countries will explore mechanisms to achieve reductions in remittances transfer costs. The Rio Group reaffirms its commitment to fight for gender equality and supports the mobilization of financial resources to build on the capacities of national and regional platforms with a view to reducing the risk of natural disasters, which are being implemented within the framework of the Hyogo Action Programme.

In UNCTAD's<sup>11</sup> opinion, the economic theory that capital flows should go from rich to poor countries; nevertheless, in practice net flows have gone in the opposite direction. According to UNCTAD, growth in developing countries does not depend directly on capital flows and private flows are not necessarily a reliable source of financing for development, because they are highly volatile – except for FDI. UNCTAD considers that not all private capital flows to developing countries are desirable, that is particularly the case of those flows that are not destined to finance trade or investment.

For NGO *Justice, Peace & Integrity of Creation Missionary Oblates*, FDI provided by corporations must be supplied within a framework of social responsibility that promotes sustainable development. According to this institution, it is necessary to pay special attention to FDI aimed at extractive activities, which do not generate a large number of jobs, have little connection with the rest of the economy, have proved to have little capacity to encourage technology transfers and have had a strong environmental impact. For this organization, the problem does not lie in outlining sound environmental or labour codes, but in the fact that their implementation has been erratic. The liberalization of investments in public services has been particularly problematic for developing countries due to the conflicts of interest seen as regards their gains and the nature of these services. The organization believes that the time has come to start developing an international framework to ensure that investment flows are governed by fiscal, labour, social, environmental standards, which provide for measures to fight corruption and encourage gender equality.

For the *Women's Environment & Development Organization*, FDI flows are partially responsible for the "race to the bottom" in fiscal, labour, environmental and gender equality concessions, which can be seen in various developing countries, even though the Monterrey Consensus expressly stated that these factors should be taken into account. The organization says that there is evidence that FDI and private capital flows do not contribute to finance development because such transfers are mainly aimed at generating gains. Even when a decision is made to reinvest such gains within the recipient country, competitors press for the use of inappropriate transfer prices so that multinational corporations can evade taxes. This implies a gradual reduction in resources for investments in sectors such as health and education, among others. According to this organization, this forum for follow up to financing for development, in charge of reviewing

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<sup>10</sup> Rio Group (2008b).

<sup>11</sup> UNCTAD (2008b).

the implementation of the Monterrey Consensus must serve to revert the gradual reduction of policy spaces in developing countries, particularly in the area of investment regulations.

### 3. International trade as an engine for development

In its document on this issue, the United States<sup>12</sup> refers to the substantial growth experienced in global trade, particularly in developing countries. Such an increase, according to the U.S. government, has been an important engine for the economic dynamism experienced since 2002. Similarly, the U.S. is pleased by the fact that developing countries have strengthened trade among themselves and expanded their participation in the international trade system, including the decision-making process, ever since the Monterrey Consensus. The number of member countries of the World Trade Organization (WTO) has increased and developing countries are playing leading roles in the negotiations of the Doha Agenda for Development (DAD).

One of the challenges pending resolution is the conclusion of the negotiation round of the Doha Agenda for Development. For the U.S., an agreement would lead to an increase in trade of agricultural and industrial goods, which would make the economies more competitive and productive.

The European Union<sup>13</sup> recognizes that trade is an important engine for economic growth and poverty reduction, as has been demonstrated by several countries whose increased participation in global trade has helped them to reduce their poverty levels. Nevertheless, trade reforms must form part of a broader sustainable development strategy that includes a responsible macroeconomic management, structural policies, and improvements in the health and education sectors, appropriate social protection networks and high governance standards, among other things.

In the EU's opinion, there are many areas which call for progress. It is important to reach a successful conclusion of the round of multilateral trade negotiations. According to the EU, a successful culmination of these negotiations depends on the accomplishment of an appropriate balance between the commitments entered into by developing and developed countries. The EU pointed out that the reduction of the negotiation agenda – in the wake of the suspension of the negotiations on investment, government procurements and competition policies in 2004 – removed three important areas in which there was a possibility to shape up multilateral rules in order to support development.

In view of the difficulties faced by the multilateral negotiation processes, bilateral negotiations have proliferated. The EU would prefer to achieve multilateral liberalization rather than forging bilateral agreements. Referring to least developed countries (LDCs), the EU believes that not only developed countries should grant preferential treatment to LDCs, but developing countries should also grant such treatment to each other. Nevertheless, market access alone cannot guarantee that all the countries can become successful exporters. In this connection, aid for trade plays a fundamental role since the EU is the leading provider of aid for trade and has assumed an active role in developing a global vision on this subject. The EU's *Joint Aid for Trade Strategy*, adopted in October 2007, provides details about the implementation of the EU assistance in areas related to trade. The EU is committed to increase aid for trade to up to 2000 million euros by the year 2010.

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<sup>12</sup> U.S. Government (2008c).

<sup>13</sup> European Union (2008c).

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The Rio Group<sup>14</sup> supports the idea that trade is an engine for countries' sustainable development. Nevertheless, not all the nations have been able to reap the benefits of globalization on an equal footing. The Rio Group considers the strengthening of South-South trade as a positive factor and welcomes the continuation of negotiations with a view to expanding the global system of trade preferences for developing countries. As far as the strengthening of export capacities are concerned, this group considers that advantage should be taken from the current situation to invest in infrastructure, education and human capital. The Rio Group will continue to promote fair trade measures that allow the most vulnerable sectors in its countries to benefit from trade. As part of the issue of trade, and in light of the new developments, the situation of food trade turns out to be of the utmost importance for the Rio Group. It is also very important to achieve a successful conclusion of the Doha Round in order to eliminate all agricultural subsidies distorting markets and affecting mainly developing countries.

Although the position of the Rio Group does not explicitly deal with this aspect, various countries in the region have expressed in other forums their deep concerns as regards the issue of high fuel prices and the increase in food prices. Several of these nations remember, with special concern, how a similar situation in the past seriously jeopardized their economic growth and consequently living standards of their populations, substantially aggravating their external debt problems.

In the opinion of the World Trade Organization (WTO),<sup>15</sup> the Doha Ministerial Declaration, which marked the beginning of the Multilateral Trade Negotiations Round in 2001, outlined a clear relationship between trade and development, placing the needs and interests of developing countries at the core of the negotiation agenda. For the WTO, political leadership and a long-term commitment for growth spurred by exports are of crucial importance. It is fundamental to generate an environment that encourages trade, and for this reason it is important to provide aid for trade. In this area, the new developments in South-South Cooperation for trade are particularly important. The WTO *Aid for Trade* Programme is based on the same structure as the Monterrey Consensus. In order to keep momentum of trade as an engine for growth, it is necessary to guarantee broader access not only to markets, but also to financing and ODA directed at building on export capacity in developing countries. In this connection, efforts must be aimed at obtaining greater resources for this objective, not at eliminating any other type of assistance, such as that earmarked for education or health. According to the WTO, all sectors have actively participated in the *Aid for Trade* initiative during the year it has been in effect. In this regard, the initiative been has in line with the objectives of the Monterrey Consensus. The WTO considers that aid for trade is emerging as one of the most important links between trade and development; nevertheless, it cannot offer the same advantages that would be derived from an agreement in the Doha Round.

The OECD<sup>16</sup> is also concerned about the WTO trade negotiations and says that they have clearly shown it is necessary to implement instruments to help developing countries to surpass institutional and human limitations, as well as constrains on trade-related supply capacity. The OECD has worked closely with the WTO to make aid for trade operational. According to the OECD, in order to reap the benefits of trade liberalization it is essential to make adjustments and ensure a response in terms of supply. To this end, it is necessary to implement a sound economic policy, to build human capacities and to facilitate adjustments in those sectors that might be affected by changes. According to the OECD, in spite of the considerable amounts granted to improve supply capacity, there is little

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<sup>14</sup> Rio Group (2008b).

<sup>15</sup> World Trade Organization (2008).

<sup>16</sup> OECD (2008).

evidence of the impact of these programmes. An increase in aid for trade requires convincing both donors and recipient countries that trade integration can substantially contribute to economic and social development, and to reinforce effectiveness of donors' support. The fundamental challenge is ensuring effectiveness, but most of the studies underscore that aid for trade programmes have had a limited effect.

In the opinion of the OECD, there are two major areas of action: First, both donor and recipient countries have to improve aid for trade procedures, and design programmes to effectively overcome restrictions to trade and to increase the impact of trade on economic growth. Second, the principles of the Paris Declaration on the effectiveness of aid for trade must be applied in a consistent way.

As a matter of fact, there isn't a clear definition of aid for trade. The OECD and the WTO define aid for trade as the part of ODA that is aimed at programmes and projects related to trade. This includes technical assistance, infrastructure development, flows to improve productive capacity, and adjustment assistance. The initial results of the review conducted by the OECD in November 2007 of aid for trade indicate that high priority has been given to it, both in donor and recipient countries; however, the Paris Declaration contains principles that still have to be implemented in this regard, and it is necessary to outline consistent frameworks to evaluate the quality of aid for trade.

For its part, ECLAC<sup>17</sup> considers that the main challenge of developing countries is to strengthen their participation in global trade flows. According to this organization, Latin American and Caribbean countries have a little diversified export structure with relatively low added value in terms of advanced technology. ECLAC believes that aid for trade should play a fundamental role and has identified four fundamental areas to which aid must be channelled: i) infrastructure for trade exchanges and provision of public goods; ii) financing of trade and export development of small- and medium-sized enterprises; iii) facilitation of trade activities, and iv) promotion and diversification of exports.

#### **4. Increasing international financial and technical cooperation for development**

As far as financial cooperation for development is concerned, the U.S. Government<sup>18</sup> does not accept the formal goal of measuring ODA as a percentage of GDP, since it argues that aid effectiveness is more important than its amount. In 2002, the U.S. committed itself to increase the amount of ODA that it contributed in 2000 by 50% by the year 2006 – a goal which it says was reached in 2003. During the summit held by the G-8 in Gleneagles in 2005, the U.S. committed itself to double its assistance to Africa between 2004 and 2010; and in 2006 such assistance was 50% higher than that registered in 2004. In spite of the increase in ODA, almost 85% of financial flows from the United States towards developing countries come from private sources – which represents a dramatic change with respect to the situation seen 30 years ago.

According to the U.S., both donor and recipient countries are on their way to reach several of the goals of the Paris Declaration by the year 2010. One of those goals is to provide 66% of aid based on programmes. The United States believes that aid must be channelled towards those developing countries that show their commitment to fair government, invest in their people and promote economic and business opportunities. The U.S. also recognizes the importance of the contributions made by those countries which are not members of the Development Assistance Committee (DAC), whose disbursements increased by 60% between 2002 and 2006. The perspectives and

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<sup>17</sup> ECLAC(2008).

<sup>18</sup> U.S. Government (2008d).

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contributions of these countries are very valuable for the agenda on aid for development, in view of their own experiences.

The European Union<sup>19</sup> recognizes the importance of ODA in pursuing the objective of poverty reduction and the rest of the Millennium Development Goals. Collectively, the EU has exceeded the goal set for 2006 of contributing 0.39% of their GDP as part of ODA. At present, the EU grants 60% of the total global ODA, and it has committed itself to reaching the goal of 0.56% of its GDP by 2010 and 0.70% by 2015.

According to the EU, it is necessary to improve the levels of efficiency of ODA, by ensuring steadiness of flows and making them as less volatile as possible. For this purpose, donor countries must show political will to make ODA flows more predictable and stable through time, while guaranteeing their timely and transparent delivery. Similarly, in the opinion of the EU, it is important to apply appropriate policies and good governance so as to enhance the positive effects of assistance for development.

For the European Union, the new tendencies in South-South Cooperation are quite relevant. This type of cooperation can increase the levels of efficiency of the assistance, and contribute to examine various perspectives and experiences of countries which have benefited from assistance for development. The EU has engaged in a great number of triangular cooperation activities, and considers that this type of cooperation is an important source of lessons to be learned by both developing and developed countries, even though it may require substantial coordination efforts. The EU also recognizes the changes in the architecture of ODA and the participation of countries that are not members of the DAC, whose contribution to aid flows has increased. This, says the EU, makes the architecture of assistance more complex and generates new challenges in ensuring its coherence and efficiency. The EU considers that the Paris Declaration represents an international consensus which can help to improve efficiency of ODA.

The European Union believes that various objectives must be set for the future: i) to design innovative forms of assistance; ii) to grant greater financing to face the climate change; particularly, additional resources to implement adaptations that allow for low carbon emissions; and iii) to make aid flows serve to mobilize substantial private flows, among others.

The Rio Group<sup>20</sup> thinks that it is necessary to increase ODA and other resources so that developing countries can attain and even exceed the internationally agreed goals – including the Millennium Development Goals (MDGs). Against this backdrop, the nations of the Rio Group would welcome any multilateral initiative aimed at increasing the efficiency of international assistance, provided that they do not imply imposing conditions that may constrain the principles of national property of the projects, but that they rather respond to the priorities and needs identified by recipient countries. The Rio Group thanked those countries that have already reached the goal of earmarking 0.70% of their GDP as ODA and urged those donors which have not done so to reaffirm their political commitment to comply with this goal by 2015. The Rio Group noted with serious concern that ODA has decreased during the last year (2007) and that the temporary increase registered in previous years to a great extent was the result of mechanisms to encourage the payment of the foreign debt.

The Rio Group also reiterated that it is necessary to adopt new modalities and instruments for international cooperation and financing for average-income countries. This requires

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<sup>19</sup> European Union (2008d).

<sup>20</sup> Rio Group (2008b).

setting up additional programmes to efficiently contribute to reduce poverty and social inequalities, by stimulating economic development. This Latin American and Caribbean group reiterated the importance of South-South Cooperation and triangular cooperation as additional assistance tools. The Rio Group thinks that the upcoming high-level conference scheduled to be held in Argentina during the first half of 2009 can provide an excellent opportunity to discuss mechanisms to strengthen and improve South-South Cooperation. The Rio Group also pointed out that a broad and democratic participation of society in decision-making processes is a fundamental factor to improve institutional quality, since it makes it possible to identify demands and increases interaction among social institutions and several actors. The Rio Group considers that it will be difficult to achieve the MDGs without mitigating the impact of natural disasters, and in this regard the Group reaffirmed its commitment to strengthen financing and assistance mechanisms for activities related to adaptation to the climate change, within the framework of the United Nations for Climate Change and the Kyoto Protocol.

For its part, ECLAC<sup>21</sup> considers that, in addition to private financing flows, ODA can and must play an important role in economic growth and development in developing countries. It is not only necessary to increase aid flows, but also to improve their efficiency. This implies, among other things, identifying cooperation necessities and implementing monitoring mechanisms in aid recipient countries. In ECLAC's opinion, it is necessary to revert the trend to a decrease in the relative participation of Latin American and Caribbean countries in international ODA. It is also necessary to look for innovative mechanisms of financing for development which include the application of global taxes, the creation of international funds and voluntary private donations. This regional UN commission also agrees with making a positive evaluation of the new forms of South-South Cooperation and the benefits that can be derived from it.

LDC Watch<sup>22</sup> has a different view from those of the U.S. and the EU. For this organization, the increase in the number of Least Developed Countries (LDCs), from 24 in 1971 to 47 at present, is a quite ironic fact. Such an increase has occurred after three decades of assistance for development, three United Nations conferences on LDCs and three specific action programmes. This clearly proves the failure of existing development paradigms, including the agenda of assistance for development.

LDC Watch says that civil society must be an integral part of any development plan, so as to guarantee the democratic nature of the projects, as well as the dissemination of knowledge and local experiences. This organization urges the governments of least developed countries and its partners to reaffirm the international commitments that they have assumed and to guarantee, among other things: i) an increase in the participation of women in development processes; ii) an increase in the provision of aid for social services infrastructure; III) the write-off of 100% of the debt of LDCs; IV) the elimination of all types of conditionalities to assistance for development, including policy recommendations and structural adjustment programmes; v) an increase in mutual accountability; vi) promotion of democratization and transparency to improve effectiveness of the assistance; vii) recognition of vulnerability to natural disasters in LDCs; and, ix) not using assistance resources to the detriment of the environment.

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<sup>21</sup> ECLAC (2008).

<sup>22</sup> LDC Watch (2008).

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## 5. External debt

In the United States' opinion,<sup>23</sup> there has been substantial progress as regards the issue of the external debt of least developed countries since the Monterrey Consensus. Thirty-two countries have proved to have achieved enough progress with their economic policy and their commitment to poverty reduction in order to start receiving debt relief aid. Twenty-three Highly Indebted Poor Countries (HIPC) have completed the process and qualified for a final reduction in their debt levels. The Paris Club adopted the so-called "Evian terms" to provide debt relief, on a case-by-case basis, to average-income countries and non-HIPC, low-income countries with debt problems. In order to maintain these gains through time, the U.S. government considers that it is necessary to adopt a long-term approach to debt sustainability; and in this connection, it is worthwhile noting the progress made by the World Bank and the International Monetary Fund to jointly develop the Debt Sustainability Framework for low-income countries in 2005. According to the U.S., average-income countries have improved their debt sustainability levels.

Among the lessons learned, the U.S. underscores the use of donations as a financing mechanism and the changes occurred in multilateral development banks, which represent an important tool to maintain debt sustainability. According to the U.S., debt management could be further improved through the following actions: i) to improve in the short term a prudent debt management scheme in order to avoid overindebtedness; ii) to continue to strengthen a responsible management of economic policy; and iii) to adequately meet demands facing some HIPC) from private creditors who seek to recover the total amounts they are claiming. According to the U.S., all creditors must provide debt relief for eligible countries and, in this connection, it is working to find ways to encourage this, including the use of the World Bank's Debt Sustainability Framework.

The European Union<sup>24</sup> shares the optimistic U.S. view on the success of the debt relief programme. The HIPC initiative has multiple dimensions, which make emphasis on debt relief, but condition it to poverty reduction, macroeconomic stability and structural adjustments that include social reforms within the context of the Strategy Paper on Poverty Reduction. This programme has allowed for reducing debt servicing in several countries and it is encouraging to see how some of the countries that have reached graduation are now able to access capital markets, while their FDI inflows increase. The EU recognizes the positive results of the Multilateral Initiative for Debt Relief and welcomes the inclusion of new institutions in this initiative. Similarly, the EU countries endorse the progress achieved by the World Bank and the IMF in connection with the Debt Sustainability Framework, which must provide for an early alert system to warn of possible debt crises.

The EU stresses that a major concern with respect to this issue is the fact that several countries have reduced their external debt levels, but have experienced an increase in their domestic debt rates. Although this new debt structure reduces foreign exchange-related risks, it is necessary to increase their capacity to manage domestic debt with a view to maintaining general public debt sustainability. Similarly, in the EU's opinion, the efforts made by debtor countries must be complemented by creditor countries. In this regard, there are concerns that creditor countries might put at stake debt sustainability by granting credits for inappropriate amounts or without the adequate concessionality levels. The EU points out that both creditor and debtor countries must include debt sustainability considerations in their decision-making processes. Finally, in the EU's opinion,

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<sup>23</sup> U.S. Government (2008e).

<sup>24</sup> European Union (2008e).

despite some improvements, debt relief on the part of creditors that do not belong to the Paris Club and commercial creditors continues to be low.

The Rio Group<sup>25</sup> states that the debt problem cannot be solved through a single action, but requires a sustained effort. For this group of Latin American countries, it is important to make sure that there exists an inversely proportional relation between the decrease in the required amounts to cover debt servicing and resources used to fight poverty. The Rio Group countries deem it convenient to continue making strides towards strengthening the financial systems, including a reinforcement of the national debt markets in local currencies. The Rio Group also thinks that progress must be made towards establishing transparent mechanisms for risk analysis which take into consideration the space for policies that developing countries must have so as to promote economic growth and to advance with the implementation of social programmes.

In UNCTAD's opinion,<sup>26</sup> there has been a dramatic change in the debt structure. In 2000, 50% of the long-term debt was contracted with official creditors; in 2006, this type of debt accounted for 42%. UNCTAD points out that it would not be appropriate to say that developing countries do not have debt problems, since a great deal of their debt reduction has been the result of the HIPC programme and a substantial part of the cancelled amounts had a current value well below their face value. According to UNCTAD, developing countries can be classified into two groups, based on their need for financing: a) low-income countries with limited or little access to capital markets, and b) average-income countries with access to markets. The circumstances of these two groups are different and any consensus that might be reached to face the debt problem must take due account of such differences.

Therefore, in UNCTAD's opinion, the new political agenda on external debt must make emphasis on recognizing that it is not possible for all countries to equally benefit from external flows, and that debt sustainability depends on how it is used. The issue of debt sustainability represents a problem for average- and low-income countries, and consequently, according to UNCTAD, debt relief initiatives should not make a *priori* discriminations between these groups. In this connection, it should be acknowledged that the efforts made in the area of debt relief have been particularly unfair with those countries with the greatest financial needs but low debt levels. Finally, UNCTAD underscores that in dealing with debt-related problems due account must be taken of both the debt amount and its structure.

In turn, AFRODAD<sup>27</sup> and other organizations consider that, while external financing can turn out to be a suitable mechanism to undertake important public investment works, the accumulated debt continues to be being a burden for many countries. Albeit praiseworthy, debt relief initiatives have fallen short of the objectives of the Monterrey Consensus and the Millennium Declaration. In the opinion of these organizations, it is necessary to eliminate harmful conditionalities – even though they recognize that transparency and mutual accountability are desirable – because current conditionalities can even impinge on microfinances of recipient economies. It is necessary to expand the debt relief initiative, and the Doha Conference offers the opportunity to make calls for including more countries and thus help to achieve human development goals. AFRODAD has also expressed concerns about the new debts incurred by some countries that have benefited from the debt relief programme. In its opinion, the Debt Sustainability Framework has not been sufficient to deal with the problem of debt reaccumulation, as it

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<sup>25</sup> Rio Group (2008d)

<sup>26</sup> UNCTAD (2008c)

<sup>27</sup> African Network on Debt and Development and other organizations (2008).

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only imposes sanctions on debtor countries for exceeding their debt ceilings, even when such a situation can be the result of their poor access to donations. AFRODAD also expressed concerns about the situation of various average-income countries, whose debt levels have apparently improved, but have actually generated more domestic public debt. Finally, it must be noted that for these actors it is necessary to follow a comprehensive approach to the issue of debt reacummulation, which takes into account both the amount and the quality of the debt. With respect to the quality of the debt, the Debt Sustainability Framework has done very little.

In the opinion of LATINDADD,<sup>28</sup> financing for debt reduction has not been based on the use of additional resources; and for this reason, the cost of debt relief has been a more restricted access to concessional resources. In addition, LATINDADD underscores that ODA resources have been undermined by the provision of debt relief, even though such relief is still insufficient to accomplish MDGs. Based on this and other arguments, the Group concludes that debt relief has become a financial operation to improve the status of public finances and help nations to reach a certain investment level, which does not take into account the accumulated social debt.

LATINDADD recommends to endorse changes to shape up a new financial architecture, underscoring that it must be complemented by fair trade, and to promote civil society participation as a means to ensure social control and transparency in all the operations related to external debt and financing. The group also says that regional development banks should contribute with an adequate volume of financing, and should reinforce and expand their debt relief programmes, while preventing such resources from undermining ODA. In a nutshell, LATINDADD fundamentally criticizes the following aspects as regards debt relief: i) the HIPC programme is insufficient to solve the problem of poverty and ensure debt sustainability; ii) the programme has undesired effects, such as increased financing costs and a more restricted access to concessional credits; iii) there are substantial limitations in using a criterion based on income level to qualify average-income countries as eligible to benefit themselves from the debt relief program, since such an indicator does not take into account income distribution within nations; iv) although debt servicing initially decreased with the HIPC initiative, it has started to increase to unprecedented levels; and v) the funds aimed at debt relief for developing countries have been accounted for as part of the ODA, thus contributing to its apparent growth, even though there has not been a real increase in cooperation flows.

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<sup>28</sup> Latin American Network on Debt, Development and Rights (2008).

## 6. Addressing systemic issues

In the United States' opinion,<sup>29</sup> the participation of developing countries in international decision-making and setting of regulations has substantially increased since the Monterrey Consensus. Developing countries are playing a crucial role in the Doha negotiations and in the ongoing debates on the operation and structure of multilateral financial institutions. The U.S. government cites the following facts as evidence of the improvement in the participation of developing countries in international decision-making: i) the Basel Committee for Banking Supervision has expanded its cooperation with the international community; ii) the Fundamental Principles of the Liaison Group, have been enhanced and the group has been replaced by the International Liaison Group, which is a fundamental forum for deepening banking supervision in the world; iii) the Heiligendamm Process – started in 2007 – has strengthened the dialogue between the countries of the G8 and the 5 largest emerging economies; iv) the process of the International Framework has improved significantly since the Monterrey Consensus, with forty-five developing countries actively participating in various stages of the International Framework's coordination process.

Among the pending challenges with respect to this issue, the U.S. government makes emphasis on the following: i) it is necessary to maintain the focus of attention and coordination as regards financing for development between the United Nations and the Bretton Woods institutions; ii) strides must be made as regards the operational role of the United Nations, which should tend to increase assistance to vulnerable States and poor countries facing important political and security risks; and iii) in this regard, it is necessary to promote assistance focused on these vulnerable States and poor countries with high political risk, which is, from many points of view, the area that has seen the fewest progresses in the wake of the agreements of the Monterrey Consensus.

In the European Union's opinion,<sup>30</sup> important reforms have been carried out in the structure of the IMF. In September 2006, a reform programme was launched on the distribution of quotas and voting rights within the institution. The EU recognizes that these reforms are fundamental for the legitimacy of the Bretton Woods institutions. For the EU countries, the distribution of quotas and vote participation must reflect the weight of each member country on the global economy; nevertheless, they favour the idea of strengthening the voice of low-income countries in the IMF and the World Bank by increasing their basic votes.

As major challenges, the EU points out that there is still a long way to go in establishing global financial rules, implementing an agenda for dignified employment, and strengthening regional cooperation and the United Nations. It is also necessary to build a consensus on cooperation in fiscal issues to fight tax evasion, and to reach agreements to control natural resources, public services and fiscal management. The EU thinks that more attention should be paid to the provision of global and regional public goods – an issue which has not been properly dealt with on a national scale.

The Rio Group<sup>31</sup> reaffirmed the need to make progress towards the establishment of a stable international financial system, ensuring an effective participation of all the countries in decision-making bodies and processes. The Group considers that the rules governing the main financial institutions need to be changed because regulations must properly consider the situation, condition and opinion of the countries that would be

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<sup>29</sup> U.S. Government (2008f).

<sup>30</sup> European Union (2008f).

<sup>31</sup> Rio Group (2008e).

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affected, particularly developing countries. The Rio Group reaffirmed its commitment to expand and improve the participation of developing countries in the international decision-making process and the formulation of standards. Based on this, it deems it necessary to reform voting rules in the Bretton Woods institutions. The Group recognizes the recent progresses in this area and welcomes the agreements reached in the IMF annual meeting in October 2007.

This group of Latin American nations underscored the importance of promoting international financial stability and sustainable growth, and welcomed the efforts made by the IMF and the Financial Stability Forum in addition to the Monetary and Financial International Committee. The Rio Group considers the formulation of strategies to be necessary in order to face fiscal cooperation challenges, and deems it important to study mechanisms to strengthen the Ad Hoc Group of Experts on International Cooperation in Tax Matters. The Group considers that the mechanism to follow up the agreements reached in Monterrey has not produced the expected results, and believes that it must be strengthened in order to ensure an integral monitoring of their implementation, both at the national and the international levels.

According to UNCTAD,<sup>32</sup> most of, if not all, the aspects considered to be systemic in the Monterrey Consensus are currently pending. Not even one of the Consensus' recommendations has been implemented thus far through appropriate actions, and that is one of the reasons for the fragility of the global economy. UNCTAD has warned the political actors of the world's largest economies that they must go beyond their limited visions and assume their responsibilities within the global economy. So far, there isn't a coordinated action plan that can reduce the risks of a forced landing of the global economy, because the efforts to increase the IMF's capacity for monitoring industrialized countries have been ineffective. In UNCTAD's opinion, the recent episodes of financial volatility seem to be the result of financial manoeuvring based, on the one hand, on a massive leverage and vague instruments, and on the need to reaffirm the value of financial instruments, on the other hand. There are major imbalances in the global economy as a result of the inconsistencies among the macroeconomic policies of the large economies. The delays in foreign exchange adjustments are due, to a great extent, to the predominance of speculative capitals. As is the case in international trade, strengthening multilateral rules and institutions can reduce uncertainties and instability in international financial markets and favour compatibility of domestic macroeconomic policies. According to UNCTAD, the area of public finances poses a major challenge as fiscal competition emerges as a systemic problem when countries fight to attract foreign investment flows. This leads to a global loss in tax income levels with a subsequent tax income loss. Moreover, the proliferation of bilateral trade agreements is a response to the little progress achieved in the multilateral negotiation rounds, which forces many countries to undertake this type of negotiations or otherwise risk themselves to lose market share. Another fundamental issue is the climate change and the mechanisms that should be adopted to fight this problem. It is necessary to undertake global action and create appropriate institutions, since the measures to mitigate their impact must inevitably involve all actors.

The ILO<sup>33</sup> considers that the financial turmoil is a symptom of the failure in reaching a solution of the global imbalances, and in order to retake the path towards an equitable growth it will be necessary to achieve higher levels of consistency in international policies than those reached over the last few years. This organization stresses the need to have an agenda for dignified employment, based on the four pillars previously mentioned in this

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<sup>32</sup> UNCTAD (2008d).

<sup>33</sup> International Labour Organization (2008b).

document. In the opinion of the International Labour Organization, credit problems in the U.S. and other developed countries are having repercussions on companies and workers at a global level. An international financial system must be based on a stable social system and the fundamental purpose of such a financial system is to channel savings resources towards productive activities; which is not guaranteed yet.

According to ECLAC,<sup>34</sup> the current international financial system offers few instruments that can play a countercyclic role. Among ECLAC's proposals to reinforce financial and institutional stability are the following: i) to ensure prudent monitoring of capital, liquidity levels and risk management; ii) to improve transparency and the risk evaluation processes; iii) to change the way in which risk evaluations are used, iv) to strengthen the countries' responses to the changes in the perception of risks, and v) to apply appropriate mechanisms to face unexpected tensions due to a lack of liquidity. ECLAC believes that regional development banks must play a new role in financing and consider it is necessary to strengthen the Latin American Reserves Fund, and to make strides towards the consolidation of a regional capital market.

In the opinion of NGOs Medical Mission Sisters and New Rules for Global Finance, preventing financial crises requires cooperation in the areas of regulation and monitoring, which goes beyond countries' borders. The principles of Basel II require additional work, particularly with respect to the treatment of off-balance transactions which have undermined confidence in banks' solvency. In this connection, it must be noted that developing countries have not participated in the design of Basel II. Furthermore, little action has been taken to maximize the use of strict, objective and transparent standards to evaluate sovereign risk. Cross-border financing requires greater supervision, most of all when new actors – which are well promoted but not very transparent, such as risk funds – become a threat for financial stability. Appropriate regulations are necessary to preserve the financial environment in the long term and to avoid a short-term financial approach. These NGOs also point out that in view of the systemic inability to provide emergency financing, developing countries face the need to accumulate large amounts of strong currency reserves, and thus suffer the cost of the associated opportunity loss.

A real reform of the Bretton Woods institutions is necessary. In this connection, it is necessary to guarantee a quota formula that removes the elements that encourage an underestimation of the size of developing economies, and to promote the use of purchasing power parity for calculating the GDP. The boards of directors of these institutions must be restructured so as to increase the number of seats for least developed countries. The use of the double majority voting system must also be taken into consideration so as to increase the weight of debtor countries in the decision-making process. Similarly, these NGOs believe that the efforts undertaken with the Paris Declaration have not provided an adequate institutional framework to meet the needs of developing countries and, in this regard, they consider that the *Development Cooperation Forum*<sup>35</sup> would be a more appropriate forum for that purpose.

Finally, they stress that even though the Monterrey Consensus called for strengthening fiscal cooperation and reducing capital flight as well as tax evasion, the situation does not seem to be improving. In this connection, they propose to establish a regular exchange of information among the governments on this issue, to close tax havens, and to strengthen the UN Ad Hoc Group of Experts on International Cooperation in Tax Matters and to turn it into an inter-governmental organization.

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<sup>34</sup> ECLAC (2008).

<sup>35</sup> [http://www.un.org/ecosoc/newfunct/DCF\\_one-pager.pdf](http://www.un.org/ecosoc/newfunct/DCF_one-pager.pdf).

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The table included as an annex to this document summarizes the most important views expressed by the different international actors that have participated in the preparatory process for the review of the implementation of the Monterrey Consensus. In general, it can be noted that, while there are huge differences among these actors' views, there are some recurrent statements in relation to certain failures or obstacles which have hindered the accomplishment of the objectives outlined in the Monterrey Consensus. These factors or elements are concentrated, mainly, in four of the six pillars or actions of the Monterrey Consensus: a) international trade, b) cooperation; c) external debt, and d) systemic issues.

The following table summarizes the main ideas and critical observations with respect to the implementation or compliance with the goals outlined by the international community in the Monterrey Conference.

**TABLE N° 2**

**Main ideas expressed by international actors within the context of the process of consultation on the implementation of the Monterrey Consensus, concerning each one of the actions**

<b>Action</b>	<b>Main ideas</b>
I.	Some actors believe there has been progress in mobilizing domestic resources and guaranteeing a favourable environment for investments in developing countries. There are concerns about the issue of corruption. Others consider that economic growth does not necessarily lead to poverty reduction.
II.	There are differences as regards the impact of private flows on development. FDI needs to be socially responsible. The race to the bottom as regards fiscal, labour and environmental issues must be avoided.
III.	Trade is an important engine for economic growth. There are overall concerns about the stalemate in the negotiations of the Doha Round. Strengthening South-South trade is a positive measure. Aid for trade is fundamental; but it must also be effective.
IV.	The commitment to measure assistance goals as a fraction of the product is not completely accepted. ODA is an important complement to other financing mechanisms. Emphasis is made on the new tendencies in South-South Cooperation and some actors express concerns about the conditionalities and the efficiency of ODA.
V.	Some actors consider that there has been certain progress, but stress that the problem of the debt is far from being solved. There are differences as regards the Debt Sustainability Framework in effect. The Debt Relief Initiative has fallen short of the expected results of the Monterrey Consensus, and this has led to a reduced access to concessional resources. There is a need for shared responsibility and commitment between debtors and creditors.
VI.	Concerns as regards the global imbalances as well as growth and financial volatility. Some consider that there has been certain progress with respect to the reform of financial institutions, but others think that a new architecture is required. It is necessary to improve international monitoring as well as exchanges and cooperation in tax matters.

#### IV. FINANCING FOR DEVELOPMENT IN LATIN AMERICA AND THE CARIBBEAN OVER THE LAST FEW YEARS

This section deals with the recent evolution of some indicators for the Latin American and Caribbean region, related to various issues that were included in the Monterrey Consensus, with the objective of making a preliminary evaluation about the real degrees of progress in ALC as far as financing for development is concerned.

To this end, it analyzes the evolution of the levels of savings and gross investment, foreign direct investment (FDI) flows, official development assistance (ODA), and remittances received by the region between 2002 and 2006, as well as a description of the evolution of foreign trade in LAC and its main external debt indicators. Although the analysis is made only from the perspective of the whole of Latin America and the Caribbean as a region – which restricts the conclusions that may be drawn – and therefore does not contain references to the influence of subregions or specific countries which in many cases could have a crucial impact, the dynamics in LAC is compared with that of the group of developing countries at the global level. As a result, it is evidenced that even though there have been positive developments for LAC during this period with respect to many of the indicators related to financing for development, the region has shown a relative delay in comparison with the evolution seen in the rest of developing countries – with the exception of the evolution of the external debt.

##### 1. Mobilizing domestic financial resources for development in LAC

Table N° 3 shows the evolution of the gross capital formation and the gross domestic savings between 2002 and 2007, both for the Latin American and Caribbean region and for average- and low-income countries. The figures are based on data from the World Bank's *World Development Indicators*<sup>36</sup> and estimates made by SELA for the year 2007.

Between 2002 and 2007, the levels of gross capital formation and gross domestic savings in Latin America and the Caribbean posted substantial increases. During the period, investment rose from US\$ 319,733 million to US\$ 690,030 million – a 116% increase – and gross domestic savings grew from US\$ 328,127 million to US\$ 740,032 million – a 126% increase. Nevertheless, if these figures are compared to the regional gross domestic product, growth does not seem to be that relevant. The share of gross capital formation in the gross domestic product increased by only 2% during the period, whereas the gross domestic savings grew 3%. Thus, even though gross investments and savings in the region did grow during the period 2002-2007, such increases were not very significant in relative terms. Moreover, it should be noted that the growth seen in domestic savings was possibly influenced by the high prices in raw materials during the period. Domestic private credits as a fraction of the regional GDP did not show major changes during the period.

The region's performance is often evaluated by comparing it with the performance of the rest of developing countries. By analyzing the portion of the GDP aimed at capital formation in these countries, one can note that Latin America and the Caribbean not only remained below the levels seen in other developing countries, but that the gap between them has grown. Something similar can be seen in the case of gross domestic savings. As a result of this performance, the weight of the region within the group of

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<sup>36</sup> In view of the data available from this source, in this context, Latin America and the Caribbean includes: Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

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average- and low-income countries, in terms of gross capital formation and gross domestic savings, decreased between 2002 and 2007.

**TABLE N° 3**  
**Savings and investment**  
(millions of current dollars)

	2002	2003	2004	2005	2006	2007
<b>Latin America and the Caribbean (LAC)<sup>a</sup></b>						
Gross capital formation (GCF)	319.733	325.801	411.708	494.628	594.064	690.030
Gross domestic savings (GDS)	328.127	351.452	451.757	551.760	660.478	740.032
Gross domestic product	1.717.474	1.788.974	2.075.222	2.522.686	2.931.467	3.333.478
Domestic private credit (%)	35%	34%	33%	34%	35%	-
GCF / GDP	19%	18%	20%	20%	20%	21%
GDS / GDP	19%	20%	22%	22%	23%	22%
<b>Low- and average-income countries (LAIC)<sup>b</sup></b>						
Gross capital formation (GCF)	1.580.064	1.883.536	2.353.901	2.793.359	3.331.947	4.168.526
Gross domestic savings (GDS)	1.620.054	1.930.356	2.427.667	2.994.648	3.652.630	4.465.512
Gross domestic product	6.282.403	7.107.632	8.423.341	9.978.979	11.678.579	14.135.833
GCF / GDP	25%	27%	28%	28%	29%	29%
GDS / GDP	26%	27%	29%	30%	31%	32%
<b>Comparisons between LAC / LAIC<sup>ab</sup></b>						
Gross capital formation (GCF)	20%	17%	17%	18%	18%	17%
Gross domestic savings (GDS)	20%	18%	19%	18%	18%	17%

Source: World Development Indicators, online, (2007).

<sup>a</sup> Year 2007, estimates by SELA based on preliminary figures from ECLAC..

<sup>b</sup> Year 2007, estimates by SELA based on figures from the World Economic Outlook (April 2008).

## 2. Foreign Direct Investment (FDI) flows and remittances in ALC

Foreign Direct Investment (FDI) is the key indicator of mobilization of international resources for development; even though money remittances and other labour compensations have gained weight in the last few years. Table No 4 shows the performance of these two indicators from 2002 to 2007. The figures are based on data from the World Bank's *Global Development Finance* and estimates made by SELA for the year 2007. Some of the indicators shown in Table No 4 can also be seen in Chart 1.

Net Foreign Direct Investment (FDI) inflows to the region increased by 97% from US\$ 51,783 million to US\$ 102,867 million between 2002 and 2007, with a very significant increase in the last year. Remittances and labour compensations flows experienced a much stronger growth. In 2002, these latter flows stood at US\$ 28,091 million, and by the end of 2007 they totalled US\$ 60,270 million – a 115% increase. In terms of their weight in the GDP, FDI flows accounted for an equivalent of 3.2% of the GDP generated in the region in 2002, 2.5% of the GDP in 2006, and 3.2% in 2007, whereas remittances and labour compensations increased from 1.7% to 1.9% of the total GDP during the same period. This evidences that, in the case of Latin America and the Caribbean, remittances have become an increasingly important part of external financing flows.

Among developing countries, Foreign Direct Investment flows have gained relevance. In 2002, these flows accounted for 2.6% of the gross domestic product of this group of countries, whereas in 2007 they increased to 3.1% of their total product. This performance stands in contrast with the stagnation seen in the Latin American and Caribbean region.

However, remittances and labour compensations for the global group of developing countries have shown a similar performance to that in Latin America and the Caribbean.

Thus, FDI flows experienced a very significant loss of weight in the region during the period. For the year in which the Monterrey Consensus was signed, net FDI inflows to the region were equivalent to 32% of the total flows to developing countries, whereas in 2007 they accounted for less than one-fourth. On the contrary, remittances and labour compensations grew from 24% to 25% of the total flows to developing countries during the period. Attention must be paid to these changes. In spite of the growing importance of remittances, there is no evidence that they are contributing to finance investment projects on the scale required by the region; in addition, it must be noted that these flows are generally supplied for consumption purposes. These macro-indicators should serve to draw attention to the decreased relative capacity of the Latin American and Caribbean region – in general – and to attract foreign investment flows. This is quite important from all points of view, because it has occurred during a period of strong regional economic growth, with substantial improvements in the relation of the exchange terms and a substantial growth in export income for LAC.

**TABLE N° 4**  
**International resources for development**  
(millions of current dollars)

	2002	2003	2004	2005	2006	2007
<b>Latin America and the Caribbean (LAC)</b>						
FDI <sup>a</sup>	51.783	43.999	65.666	62.226	70.457	102.867
Remittances and labour compensations received (R and C) <sup>b</sup>	28.091	34.932	41.709	48.546	56.858	60.270
<i>FDI / GDP</i> <sup>a</sup>	3,2%	2,6%	3,2%	2,5%	2,5%	3,2%
<i>R and C / GDP</i> <sup>ab</sup>	1,7%	2,1%	2,1%	2,0%	2,0%	1,9%
<i>R and C / FDI</i> <sup>ab</sup>	54%	79%	64%	78%	81%	59%
<b>Developing countries</b>						
FDI <sup>c</sup>	160.672	161.890	225.546	288.472	367.492	425.188
Remittances and labour compensations received (R and C) <sup>b</sup>	115.478	143.586	161.166	190.422	221.272	238.974
<i>FDI / GDP</i> <sup>cd</sup>	2,6%	2,3%	2,8%	3,0%	3,2%	3,1%
<i>R and C / GDP</i> <sup>bd</sup>	1,9%	2,1%	2,0%	2,0%	2,0%	1,7%
<i>R and C / FDI</i> <sup>bc</sup>	72%	89%	71%	66%	60%	56%
<b>Comparisons between LAC and developing countries</b>						
FDI <sup>ac</sup>	32%	27%	29%	22%	19%	24%
Remittances and labour compensations received (R and C) <sup>b</sup>	24%	24%	26%	25%	26%	25%

Source: Global Development Finance, online, (2007).

<sup>a</sup> Year 2007 estimates by SELA based on preliminary figures from ECLAC.

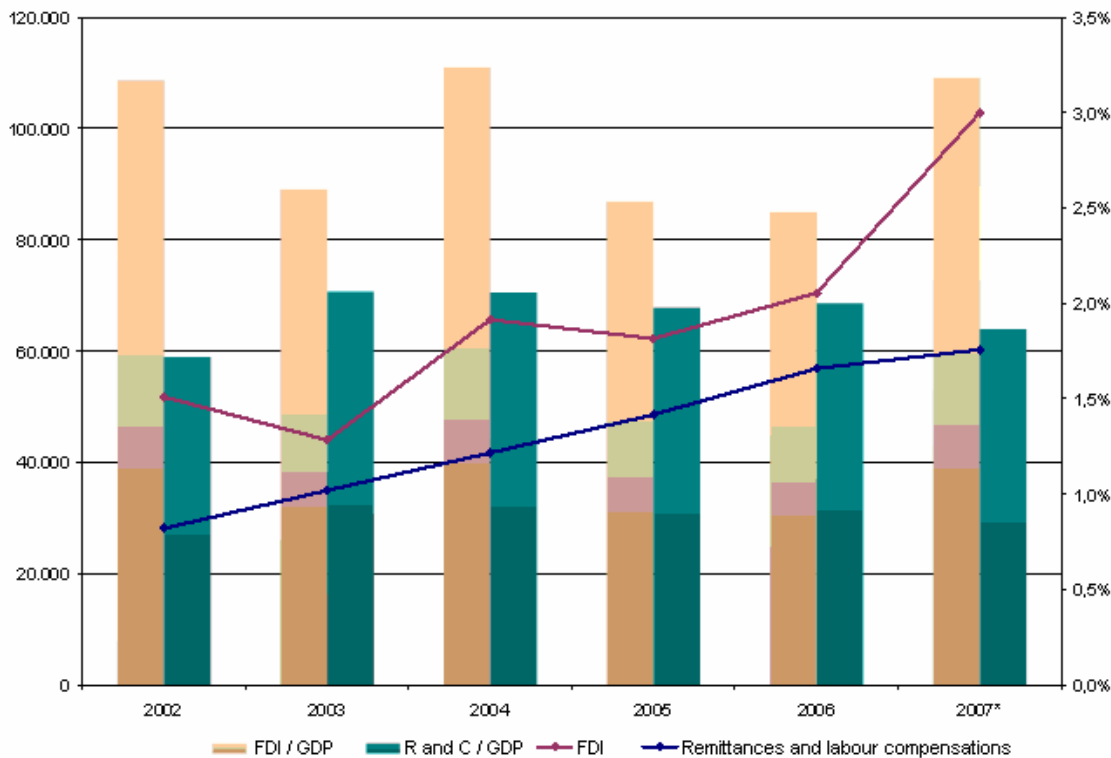
<sup>b</sup> Year 2007 estimates by SELA based on figures from the World Bank.

<sup>c</sup> Year 2007 estimates by SELA based on figures from UNCTAD.

<sup>d</sup> Year 2007 estimates by SELA based on figures from the World Economic Outlook (April 2008).

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**CHART 1: Net flows of Foreign Direct Investment, remittances and labour compensations (millions of current dollars), percentages on the right-hand axis**



**Source:** Global Development Finance, online, (2007).

\* Estimates

### 3. Share of foreign trade

From 2002 to 2007, export and import levels increased in Latin America and the Caribbean. Table No. 5 indicates that exports in the region increased by 111.8% from US\$ 401,097 million in 2002 to US\$ 849,565 million in 2007. Imports grew from US\$ 392,667 million to US\$ 808,508 million during the same period, which represented a 106% increase. The share of foreign trade within the GDP of the region increased by 2% in terms of exports and by 1% in terms of imports, which boosted the region's trade balance from 0.5% of the GDP in 2002 to 1.2% in 2007.

By comparing the region with the rest of the developing countries of the world, it can be seen that this indicator is facing a similar situation to that of other indicators previously analyzed. In terms of the share of its foreign trade in its gross domestic product, the region is well below the rest of developing countries, and the growth in the share of developing countries in global trade has been much greater than the growth experienced in Latin America and the Caribbean. This is evidenced by comparing the relative weight of exports and imports in the region as a portion of total exports and imports for the rest of developing countries. The region's exports and imports accounted for about 22% of the total foreign sales of developing countries in 2002, but in 2007 they represented only 19% of the total foreign sales of developing countries. This loss of relative weight in LAC in terms of global trade flows is directly associated with the region's limited capacity to diversify its

export supply or, more importantly, to increase its share of high-technology products in its foreign sales.

Graph 2 shows the composition of exports from the Latin American and Caribbean region,<sup>37</sup> for the year 2006, by technological contents. The figures are based on data taken from ECLAC.<sup>38</sup> It can be noted that exports from Latin American and Caribbean countries are still quite basic, as they are mostly primary products or natural resources-based manufactured goods. Altogether, these two items account for more than half of the region's exports. For their part, manufactured goods with medium and high technological contents account for about 35% of the total exports.

**TABLE N° 5**  
**Exports and imports**  
(millions of current dollars)

	2002	2003	2004	2005	2006	2007
<b>Latin America and the Caribbean (LAC)<sup>a</sup></b>						
Exports of goods and services	401.097	433.335	533.685	638.662	756.501	849.565
Imports of goods and services	392.667	407.664	493.635	581.529	689.224	808.508
Gross Domestic Product	1.717.474	1.788.974	2.075.222	2.522.686	2.931.467	3.333.478
<i>Exp / GDP</i>	23%	24%	26%	25%	26%	25%
<i>Imp / GDP</i>	23%	23%	24%	23%	24%	24%
<b>Low- and medium-income countries (LMICs)</b>						
Exports of goods and services <sup>b</sup>	1.865.445	2.232.098	2.867.554	3.520.306	4.278.537	4.538.508
Imports of goods and services <sup>b</sup>	1.781.743	2.127.669	2.728.421	3.246.732	3.866.726	4.180.337
Gross Domestic Product <sup>c</sup>	6.282.403	7.107.632	8.423.341	9.978.979	11.678.579	14.135.833
<i>Exp / GDP<sup>bc</sup></i>	30%	31%	34%	35%	37%	32%
<i>Imp / GDP<sup>bc</sup></i>	28%	30%	32%	33%	33%	30%
<b>Comparisons between LAC and LMICs<sup>ab</sup></b>						
Exports of goods and services	22%	19%	19%	18%	18%	19%
Imports of goods and services	22%	19%	18%	18%	18%	19%
Gross Domestic Product	27%	25%	25%	25%	25%	24%

Source: World Development Indicators, online (2007).

<sup>a</sup> Year 2007 estimates by SELA based on preliminary figures from ECLAC.

<sup>b</sup> Year 2007 estimates by SELA based on figures from International Financial Statistics (IMF).

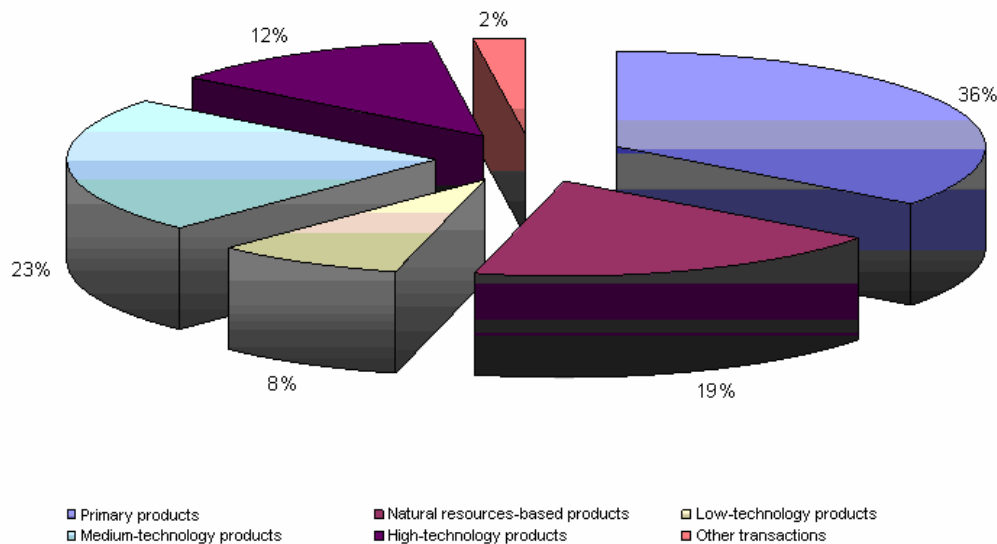
<sup>c</sup> Year 2007 estimates by SELA based on figures from the World Economic Outlook (April 2008).

<sup>37</sup> It includes: Argentina, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Granada, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela.

<sup>38</sup> ECLAC, Interactive Graphic System for International Trade Data (SIGCI).

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**CHART 2: Latin America and the Caribbean<sup>39</sup>,  
Composition of exports, year 2006.**



#### 4. ODA flows

Official Development Assistance (ODA) inflows to the region increased from US\$ 5,027 million in 2002 to US\$ 6,910 million in 2006. The strongest growth was seen place in the subregion of Central America and a more modest increase was registered in inflows to South America.

Global ODA grew approximately 75% since 2002 when it totalled US\$ 60,235 million, to reach US\$ 105,292 million in 2006. Compared with total flows, the percentage of ODA flows coming into the region decreased from 8.35% in 2002 to only 6.56% in 2006. The coefficient of aid as part of the GDP in the member countries of the DAC reached a peak in 2005 when it stood at 0.33%, but decreased to 0.31% in 2006.<sup>40</sup>

As indicated in the second section of this document, most of the criticism about the evolution of ODA flows at present focuses on the fact that the increase it has experienced is largely due to the debt relief programme; moreover, questions have emerged as regards the valuation of the debt and, therefore, the real amounts of aid. Table N° 7 and Chart N° 3 show the main items of ODA flows. While it is true that most of the items experienced perceivable increases between 2002 and 2006, the game of debt relief item was the one that posted the strongest growth during the period.

<sup>39</sup> It includes: Argentina, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela.

<sup>40</sup> OECD Journal on Development: Development Cooperation – 2007 Report.

**TABLE N° 6**  
**Official Development Assistance flows**  
(millions of current dollars)

	2002	2003	2004	2005	2006
Central and North America	2.369	2.536	3.397	3.211	3.429
South America	2.347	3.112	2.934	2.806	2.976
Whole American Region	311	385	428	533	505
<b>Total</b>	<b>5.027</b>	<b>6.032</b>	<b>6.759</b>	<b>6.550</b>	<b>6.910</b>
<b>Total Developing Countries</b>	<b>60.235</b>	<b>70.340</b>	<b>78.793</b>	<b>107.292</b>	<b>105.292</b>
<i>Total America / Developing Countries</i>	<i>8,35%</i>	<i>8,58%</i>	<i>8,58%</i>	<i>6,10%</i>	<i>6,56%</i>

Source: OECD Journal on Development: Development Cooperation – 2007 Report.

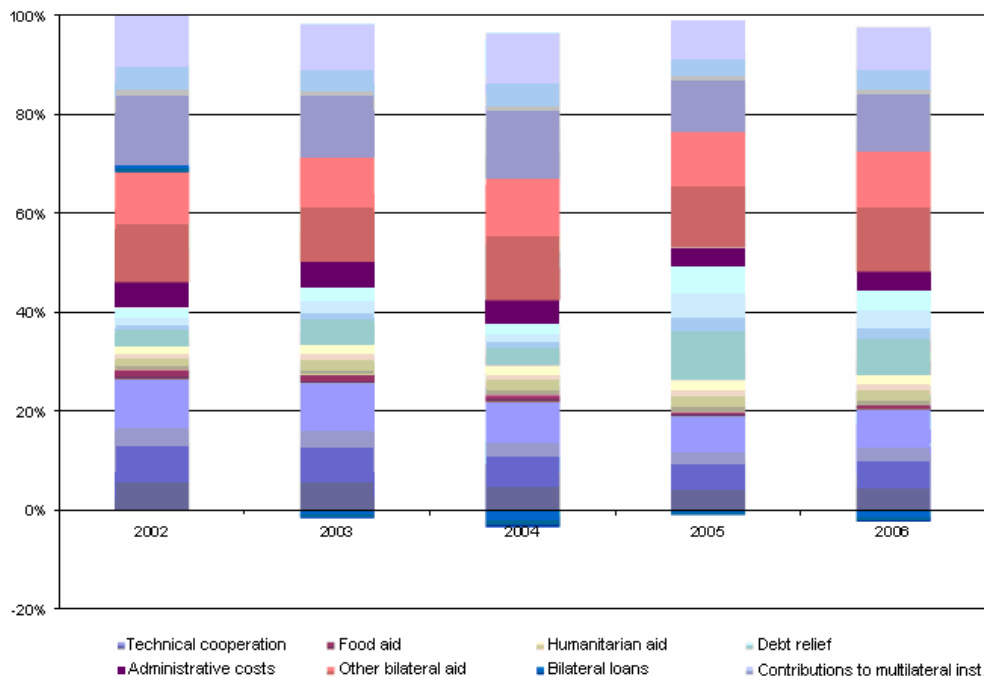
**TABLE N° 7**  
**Classification of Official Development Assistance flows**  
(millions of current dollars)

	2002	2003	2004	2005	2006	2007
Technical Cooperation	15.452	18.352	18.672	20.753	22.252	13.989
Food Aid for Development	1.086	1.196	1.169	887	956	891
Humanitarian Aid	2.779	4.360	5.193	7.110	6.751	6.282
Debt Relief	4.538	8.317	7.134	24.999	18.600	-
Administrative Costs	3.046	3.545	4.032	4.115	4.250	4.508
Other Bilateral Aid	12.917	15.117	21.046	25.589	26.641	-
Bilateral Loans	939	-1.153	-2.942	-1.008	-2.490	-2.342
Contributions to multilateral institutions	17.540	19.330	25.127	24.653	27.461	31.988
<b>Total DAC</b>	<b>58.297</b>	<b>69.065</b>	<b>79.432</b>	<b>107.099</b>	<b>104.421</b>	<b>103.655</b>

Source: OECD.

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CHART N° 3: Composition of Aid flows



Source: OECD Journal on Development: Development Cooperation – 2007 Report.

## 5. External debt

The total debt of the Latin American and Caribbean region increased slightly from US\$ 776,473 million in 2002 to US\$ 787,639 million in 2007. The period was characterized by a remarkable decrease in the use of IMF credits and a reduction in long-term debt. Short-term debt increased from US\$ 81,732 million in 2002 to US\$ 134,974 million in 2007. Foreign debt service in ALC rose from US\$ 127,784 million in 2002 to US\$ 141,152 million in 2007. After the 2002 this it reached US\$ 127,784 million, whereas during year 2007 it totalized. Long-term debt payments also increased, mainly due to the long-term debt contracted by private entities which lack public guarantees. Long-term net transfers were negative throughout every year of the period, which essentially evidences the fact that debt service payments were higher than new disbursements.

The performance of developing countries as a whole was different from that of Latin American and Caribbean countries as far as debt accumulation was concerned. Total debt for these countries increased by 51% between 2002 and 2007. As in the case of Latin America and the Caribbean, the short-term debt of developing countries as a whole increased and their use of IMF credits decreased. The share of Latin America and the Caribbean in the total debt of developing countries posted a substantial decrease from 33% in 2002 to 22% of the total in 2007. Even though there was a decrease in total foreign debt service in LAC compared with total debt service in developing countries, it was not as remarkable as the decrease seen in total amounts of disbursed debt. The region cancelled 38% of the total debt service for developing countries in 2002, and that percentage decreased to 29% in 2007. As far as disbursements are concerned, the decrease in the region's share was much more remarkable: Latin America and the Caribbean accounted for 35% of the long-term debt payments in 2002 but that percentage decreased to only 20% in 2007.

**TABLE N° 8**  
**External debt**  
(millions of current dollars)

	2002	2003	2004	2005	2006	2007
<b>Latin America and the Caribbean</b>						
<b>Total debt</b>	<b>776.473</b>	<b>817.157</b>	<b>812.737</b>	<b>750.406</b>	<b>734.844</b>	<b>787.639</b>
Long term	656.438	677.810	667.907	627.192	627.543	651.871
Short term	81.732	91.589	101.523	110.093	106.564	134.974
Use of IMF credits	38.302	47.758	43.307	13.122	737	794
<b>Long-term debt service</b>	<b>127.784</b>	<b>130.229</b>	<b>140.896</b>	<b>127.693</b>	<b>176.797</b>	<b>141.152</b>
Principal	91.488	93.788	106.603	93.527	136.602	-
Interests	36.297	36.441	34.292	34.166	40.195	-
<b>Long-term disbursements</b>	<b>87.335</b>	<b>101.985</b>	<b>103.137</b>	<b>104.374</b>	<b>130.563</b>	<b>129.935</b>
Private, without public guarantee	37.953	41.302	48.746	48.747	81.277	-
Public, with public guarantee	49.382	60.683	54.391	55.627	49.286	-
<b>Long-term net transfers</b>	<b>-40.450</b>	<b>-28.244</b>	<b>-37.759</b>	<b>-23.318</b>	<b>-46.234</b>	<b>-11.217</b>
<b>Developing countries</b>						
<b>Total debt</b>	<b>2.353.535</b>	<b>2.571.461</b>	<b>2.752.244</b>	<b>2.740.149</b>	<b>2.983.659</b>	<b>3.357.222</b>
Long term	1.924.053	2.051.491	2.171.709	2.128.549	2.305.321	2.557.845
Short term	333.673	413.106	484.491	562.421	658.235	783.076
Use of IMF credits	95.809	106.865	96.044	49.179	20.103	16.301
<b>Long-term debt service</b>	<b>336.884</b>	<b>370.941</b>	<b>398.033</b>	<b>442.028</b>	<b>516.323</b>	<b>485.574</b>
Principal	254.526	283.938	313.982	349.136	412.654	-
Interests	82.358	87.003	84.051	92.892	103.669	-
<b>Long-term disbursements</b>	<b>246.151</b>	<b>300.728</b>	<b>390.369</b>	<b>450.917</b>	<b>573.139</b>	<b>646.948</b>
Private, without public guarantee	131.002	165.440	236.256	304.342	439.198	-
Public, with public guarantee	115.150	135.288	154.113	146.575	133.941	-
<b>Long-term net transfers</b>	<b>-90.733</b>	<b>-70.213</b>	<b>-7.664</b>	<b>8.888</b>	<b>56.816</b>	<b>161.374</b>
<b>LAC / Developing countries</b>						
Total Debt	33%	32%	30%	27%	25%	23%
Long-term service	38%	35%	35%	29%	34%	29%
Long-term disbursements	35%	34%	26%	23%	23%	20%
Long-term net transfers	45%	40%	493%	-262%	-81%	-7%

Source: Global Development Finance, online (2007).

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In any case, even though these global indicators could indicate an improvement in certain indices related to foreign debt, for some countries in the Latin American and Caribbean region the levels of accumulated debt, and mainly their service, represent a major obstacle to satisfactorily accomplish the Millennium Development Goals. Particularly, several nations – mainly Caribbean, but also other middle-income nations – have begun to stress that the combination of high fuel prices, the remarkable increase in international food prices, and the possible impact of recession in the U.S. economy on the region could have terrible effects that could even generate problems similar to those faced by several economies of the region at the beginning of the 1980s.

### V. CONCLUSIONS AND RECOMMENDATIONS

1. The Monterrey Consensus contains the most important commitments adopted by the international community to support development, which constitutes a necessary complement to accomplish the Millennium Development Goals as agreed by the United Nations at the beginning of the current decade. While the aforementioned consensus is based on the principle that each State is the primary responsible for its own economic and social development, this does not preclude recognition of the need for setting up a cooperative association among developed and developing countries in order to ensure an inclusive globalization process.

2. The consultation process which was started with a view to reviewing the implementation of the commitments adopted in Monterrey, and which will be concluded with the United Nations High-Level Conference in Doha by the end of this year, is a suitable framework for developing countries – particularly those in Latin America and the Caribbean – to focus on the interrelations among development strategies, external economic insertion and current international institutionalality.

3. During the discussions that have taken place with regard to the implementation of the commitments adopted in Monterrey, and in which various international actors participate (governments, groups of countries, international organizations and NGOs), generally, it has been stressed that there are positive evidences concerning economic dynamism (not free from risks), certain advances in the fight against poverty, and an emergence of South countries in international economic relations. However, the discussions also point out that there are significant obstacles and incompliance which have prevented countries from achieving some of the objectives and goals, including the following:

a) In spite of the increased participation of developing countries in global and South-South trade, the fact that no conclusion has been reached in the WTO Doha Round negotiations – whose initial objective was to promote a multilateral system that allowed these countries to enjoy the advantages resulting from international trade – is a fundamental obstacle to actually turn trade into an engine for development. While aid for trade is recognized as an important instrument that could contribute to reduce the structural restrictions faced by many developing countries to increase their exports of goods and services, it is indispensable to evaluate the effectiveness of this aid. By the end of 2005, Latin America and the Caribbean had received only 7% of the total amount of aid for trade, which evidences that the countries of the region should make an effort to improve their access to such aid flows.

b) Official Development Assistance (ODA) is crucial to enable many developing countries to reduce poverty and comply with the Millennium Development Goals. Nevertheless, the levels of ODA provided by developed countries with respect to their

gross domestic product are still below the goal agreed to, and by 2006 only five European countries had achieved the objective of earmarking 0.7% of their GDP to ODA. Several issues – some of them interrelated – are frequently mentioned as posing problems to ODA: i) the degrees of efficiency of these flows and the necessity to count on mechanisms to evaluate them; ii) the amount of conditionalities as regards the access to ODA flows; iii) the imbalance seen in the use of ODA, as more importance has been given to social programmes and governance, to the almost absolute detriment of the support to productive investment projects and development of infrastructure, among others.

c) With respect to the external debt, it has been reiterated that it is necessary to adopt a long-term approach on debt sustainability, and in this connection it has been stated that the current debt sustainability framework still has limitations. In addition, concerns have also been expressed that ODA flows seem to have been undermined by the financial resources granted for debt relief.

d) There is still a lack of interinstitutional coordination at the global level to ensure a stable economic (commercial and financial) system which actually promotes development. According to several international actors, it is necessary to advance towards a reform of the international financial architecture. As a matter of fact, the progresses achieved in the reform of standards have occurred mainly at the level of the national financial architecture (to a great extent, thanks to the efforts made by developing countries) rather than at the international level. Similarly, actors have identified the need for greater exchanges and cooperation on tax matters, and in general, with respect to macroeconomic policies, mainly among the largest economies of the world. Similarly, it is urgent to correct existing imbalances as far as the participation of developing countries in economic decision-making at the global level.

e) Obviously, the international institutionality to support development requires an intense interaction with national and regional organizations. In this connection, Latin America and the Caribbean – along with regional financial institutions such as CAF, FLAR, development banks of subregional integration groups, other recent initiatives such as the ALBA Bank and the Bank of the South, as well as the numerous integration and regional cooperation agencies – must make greater efforts with a view to strengthening the efficiency of this regional institutional framework and to making progress towards joint coordination among the various existing organizations.

4. Between 2002 and 2007, Latin America and the Caribbean posted high growth rates, a slight increase in the levels of savings and gross investment, an increase in FDI flows and remittances coming from abroad, a modest rise in ODA, more dynamism in foreign trade, and a reduction in the burden of the external debt in the case of some countries. Nevertheless, when these regional indicators are compared with those of the rest of developing countries in the world, it be clearly seen that the region is relatively lagging behind with respect to the overall evolution of financing for development during this period.

5. According to the analyses made of each one of the issues of the Monterrey Consensus, the Permanent Secretariat of SELA proposes its States Members to consider, among others, the following recommendations:

- On mobilizing domestic resources for development:

a) With a view to increasing mobilization of the Latin American and Caribbean domestic savings, it would be advisable to promote the constitution of investment funds aimed at supporting micro-, small- and medium-sized

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enterprises in the region, and to disseminate information about existing experiences in Latin America and the Caribbean in order to guarantee financing of Latin American and Caribbean SMEs through stock markets.

- b) An analysis should be made of the possibility to use part of the substantial reserves accumulated by Latin American and Caribbean countries over the last few years for financing integration projects and regional economic development based on the creation of specialized funds through prudent operations that ensure the minimum yield levels required by this type of instruments.
  - c) Concrete actions should be undertaken pursue the gradual integration of capital markets in Latin America and the Caribbean.
- On mobilizing private financial flows for development:
- a) Strengthening regional integration processes in Latin America and the Caribbean must become a key element in national and regional strategies in order to increase the capacity to attract Foreign Direct Investment (FDI) flows to Latin American and Caribbean economies.
  - b) Within this context, countries should consider the convenience of analyzing, negotiating and implementing a Regional Agreement for facilitation and promotion of Foreign Direct Investment within Latin American and Caribbean.
- On international cooperation:
- a) Latin America and the Caribbean must insist, during the UN High-Level International Conference in Doha by the end of 2008, on the need for the donor countries providing resources for development, which are members of the OECD's Development Assistance Committee (DAC), to renew their commitment to earmark 0.7% of their national income for ODA.
  - b) While it is true that constant improvements should be made to maintain the efficiency in the allocation and management of ODA flows, and that for this purpose due account should be taken of the priorities of recipient countries, it is crucial to efficiently incorporate average-income countries into the international cooperation system, both in their capacity as aid recipient nations and in South-South cooperation projects.
  - c) The governments of the region should pay the greatest possible attention to the preparations for the upcoming International Conference on Cooperation for Development, which will take place in Accra, capital of Ghana, in September 2008. Such conference will assess the Paris Declaration on effectiveness of aid and should serve as the ideal multilateral framework to legitimize an international consensus on the standards to evaluate efficiency of cooperation for development.
- On international trade:
- a) A successful conclusion of the Doha Round of Trade Negotiations, within the framework of the WTO, is a basic requirement for developing countries – including the Latin American and Caribbean region – to be able to take advantage of the benefits that can be potentially derived from international trade, in support to national development efforts.
  - b) Aid for trade is fundamental for the countries of our region to benefit from the trade. In this connection, SELA – in coordination with the IDB and other international organizations – should outline a training programme for public policymakers of its Member States who are related to foreign trade and its interaction with development strategies.

- c) SELA should organize a regional high-level meeting for consultation during the second half of 2008 to analyze the status of the Doha Round negotiations and their possible impacts for Latin American and Caribbean nations, and to define some common positions for the region.
- On External Debt:
- a) The Permanent Secretariat, along with its Member States, should propose the relevant instances to create new credit mechanisms and facilities that include a concessional treatment to existing debt in developing countries, in order to face the new international situation characterized by an increase in the prices of raw materials and, particularly, the higher costs of energy and foodstuffs. These new mechanisms or facilities should benefit average-income, highly-indebted countries.
  - b) In this connection, the Member States of SELA should get actively involved in the discussions to reform the Debt Sustainability Framework currently in force, which is not sufficient meet the requirements of developing countries, and whose limitations have increased in the present international situation.
  - c) In this process, special attention should be paid to the specific characteristics of the small island states in the Caribbean, which face huge challenges in view of the current international economic context and the recurrent impacts of natural disasters.
- On systemic issues:
- a) During the high-level conference of Doha, Latin American and Caribbean countries should insist on the need for greater IMF supervision of the economic performance of industrialized countries, which has a direct impact on international markets and on the evolution of developing nations, as was demonstrated with the recent crisis resulting from the subprime mortgage loans in the U.S.
  - b) The mechanism for follow up of the agreements reached in Monterrey must be strengthened in order to ensure an integral evaluation of its implementation, both at the national and international levels, with an inter-institutional approach. In this process, a regional organization such as SELA should play a relevant role.
  - c) In facing the current triple shock – in the areas of financing, energy and food – the Permanent Secretariat of SELA along with its Member States, should work to outline a coherent Latin American and Caribbean strategy, which recognizes existing asymmetries within our region and promotes regional security mechanisms in those three areas.
  - d) An initial action for outlining that strategy could be convening a regional meeting to analyze the impact of the current international economic architecture (including trade, monetary-financial and investment institutions) on the region's development and the feasibility of taking full advantage of regional cooperation experiences in these different areas.
6. As an organ for Latin American and Caribbean consultation and coordination, the Permanent Secretariat of SELA should conduct, as a mechanism for follow up, these activities with the support of other regional and international institutions:
- a) To submit the final report of the Regional Dialogue on Financing for Development and External Debt ahead of the UN High-Level Conference to review the implementation of the Monterrey Consensus, as well as its conclusions and recommendations, to the Latin American and Caribbean Group to the United Nations, and to the President of the UN General Assembly. At the same

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time, the Permanent Secretariat will request the UN Office of Financing for Development to forward these documents to the General Secretariat so that they are taken into consideration in the process to draft the final document for the UN High Level Conference to review the implementation of the Monterrey Consensus.

- b) To convene a regional meeting in early 2009 to evaluate the results and commitments adopted in the High-Level Conference of Doha (28 November to 2 December 2008) and to make a proposal to its Member States as regards the fundamental guidelines for a follow-up programme.
- c) To incorporate the analyses contained in this document, as well as the conclusions and recommendations stemming from the Regional Dialogue on financing for development and external debt ahead of the UN High-Level Meeting to review the implementation of the Monterrey Consensus (Caracas, 20 June 2008), to the proposals to be discussed within the framework of the Regional Meeting of International Cooperation Directors for Latin America and the Caribbean, scheduled to be held in late October 2008 in Mexico City.
- d) To support its Member States in identifying the main views of the region on the criteria and norms included in the Paris Declaration on efficiency of assistance for development, so that the Latin American and Caribbean governments can be better prepared to actively participate in the International Conference on this issue that will be held in Accra, capital of Ghana, in September 2008.
- e) To participate actively in the preparatory process for the UN High-Level Conference on South-South Cooperation, on the occasion of the 30th Anniversary of the approval of the Buenos Aires Action Plan, which will be held during the first half of 2009. The results and proposals stemming from the Regional Dialogue on financing for development and external debt, from the Meeting of International Cooperation Directors for Latin America and the Caribbean, and from the regional meeting to follow up the results of Doha 2008 – which would be convened by SELA in early 2009 – could provide the basic core of an integral Latin American and Caribbean proposal for that conference.

**ANNEX: MAIN VIEWS OF RELEVANT INTERNATIONAL ACTORS THAT HAVE PARTICIPATED  
IN THE PREPARATORY MEETINGS FOR THE DOHA CONFERENCE, 2008**

INTERNATIONAL ACTORS	MAIN VIEWS
<b>I.- MOBILIZING DOMESTIC RESOURCES</b>	
- United States	There has been significant progress. Corruption continues to be a problem. Financial markets have become more complex, but regulatory mechanisms in developing countries have not evolved at the same pace.
- European Union	Improvements in the global environment, concerns about the issue of corruption. Remittances should complement internal savings.
- Rio Group	It is necessary to consolidate the international community's support and collaboration to the efforts made by developing countries in three areas: international financial stability, trade opening and international coordination. Commitment to incorporate social development policies.
- UNCTAD	Changes in developing economies are mainly due to the high degree of dynamism in the global economy. High risks associated to correction of global imbalances. It is necessary to review the role of fiscal and monetary policies.
- ILO	Growth does not necessarily bring about poverty reduction if there is no job creation or mechanisms for income redistribution. A better Social Security system is necessary.
- ECLAC	Mobilization of domestic resources in ALC is affected by low national savings rates, lack of strength in financial markets and poor development of capital markets. It is important to develop microfinances in the region.
<b>II.- INTERNATIONAL RESOURCES FOR DEVELOPMENT</b>	
- United States	Significant increase in FDI flows. Creation of the <i>Millennium Challenge Corporation</i> to assist projects. In 2007, the U.S. launched the <i>Africa Financial Sector Initiative</i> , and the USAID, along with the private sector, created the <i>Global Commercial Microfinance Consortium</i> .
- European Union	It is still a challenge to create a domestic and international environment that facilitates FDI flows. The EU calls for socially responsible FDI, which should not be encouraged by lowering standards. Remittances play an important role, as they are more stable flows.
- UNCTAD	Net flows should go in an opposite direction to that foreseen in economic theory, i.e. from South to North. Private flows, except for IED, are very volatile. Fiscal competition to attract flows.
- Rio Group	Private investment must play an important role in development. Remittances are private transfers, and should not be considered as ODA.
- Justice, Peace & Integrity of Creation Missionary Oblates	FDI must be granted within a context of social responsibility. Special attention must be given to assistance aimed at extractive activities since they are not generating a high number of jobs, are little connected with the rest of the economy, have little capacity for technology transfers and a have a strong environmental impact. Trade liberalization and investment in public services have posed problems for developing countries.
- Women's Environment & Development Organization	FDI flows are partially responsible for the "race to the bottom". There is evidence that FDI and private capital flows do not contribute to financing development. The 2008 Doha Conference must serve to revert constrains on policy-making in developing countries.

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<b>III.- INTERNATIONAL TRADE AS AN ENGINE FOR DEVELOPMENT</b>	
- United States	Substantial growth seen in trade, particularly in developing countries. U.S. is pleased with expansion of developing countries' participation in trade system and decision-making. Need to make progress with Doha Round.
- European Union	Trade reforms must form part of development strategy. Developing countries must also grant preferential treatment to least developed countries. Aid for trade is crucial for developing countries. It is necessary to conclude the Doha Round. ODA is important for trade.
- Rio Group	Trade as an engine for growth. Strengthening of South-South trade is a positive sign. The Group will continue to promote fair trade measures. It is necessary to conclude the Doha Round.
- WTO	Doha Ministerial Declaration provides for a clear link between trade and development. It is crucial to create an environment that encourages trade, and for this reason, it is important to provide aid for trade. But it does not replace the benefits of successfully concluding the Doha Round.
- OECD	Concerns about the status of the Doha Round negotiations. The OECD has worked with the WTO in the area of aid for trade but there is little evidence as regards the effectiveness of such aid in improving supply volume. It is necessary to apply the principles of the Paris Declaration.
- ECLAC	The main challenge for developing countries is to increase their participation in global trade. LAC countries show a little diversified export structure and scarce added value in terms of advanced technology. The role of aid for trade is crucial.
<b>IV.- INTERNATIONAL COOPERATION FOR DEVELOPMENT</b>	
- United States	The U.S. does not accept the commitment to measure ODA as a percentage of GDP. ODA has been increased, but more importance should be attached to its effectiveness than to its amount. ODA should focus on developing countries with sound policies. Importance of contribution of countries that are not members of the DAC.
- European Union	ODA plays an important role in poverty reduction and compliance with MDGs. However, it is necessary to increase efficiency levels in ODA and make it less volatile. Importance of South-South and triangular cooperation. The architecture of assistance for development has become more complex and poses new challenges.
- Rio Group	It is necessary to increase ODA and make it more efficient, so as to achieve its goals. New ODA modalities and instruments for middle-income countries. Importance of South-South cooperation and upcoming conference in Argentina (2009) as an opportunity to strengthen it.
- ECLAC	ODA can and must play an important role in development. It is necessary to increase not only its amount but also its efficiency. Innovating financing mechanisms for development must be established.
- LDC Watch	Existing development models have failed since the number of LDCs has increased since 1971 to present. Civil society is a fundamental actor in any development strategy. All conditionalities must be eliminated.

<b>V.- EXTERNAL DEBT</b>	
- United States	Substantial progress has been made as regards external debt. It is necessary to adopt a long-term approach to debt sustainability. The U.S. welcomes the Debt Sustainability Framework (DSF) undertaken by the World Bank and the IMF. Importance of donations as a financing mechanism. All creditors must provide for debt relief.
- European Union	Positive assessment of debt relief programme. The EU endorses the DSF. Concerns about the increase in internal debt. All parties must participate provide for debt relief. Debtor countries' efforts must be complemented by creditors.
- Rio Group	The issue of the external debt cannot be solved with a single action. It is necessary to ensure that freed resources are used for reducing poverty. It is necessary to pay attention to countries that are not covered by the HIPC initiative.
- UNCTAD	Changes in debt structure between 2000 and 2006. The problem has not been solved. It is necessary to pay attention to the debt structure. New political agenda on external debt must recognize that not all countries benefit from international flows in the same way, and that debt sustainability depends on how it is used.
- AFRODAD	Accumulated debt is still a burden for many countries. Debt relief initiatives are insufficient. Conditionalties must be eliminated. The DSF is insufficient. Concerns about several middle-income countries. The 2008 Doha Round must urge to include more countries in debt relief programme.
- LATINDADD	Financing of debt relief has not been based on additional resources. ODA resources have been undermined by debt relief. LATINDADD recommends changing financial architecture and encouraging participation of civil society. The HIPC Program is insufficient.
<b>VI. SYSTEMIC ISSUES</b>	
- United States	Enhanced participation of developing countries in decision-making and drafting of rules. Challenges: to maintain coordination among the United Nations and the Bretton Woods institutions, and to reinforce assistance to vulnerable nations.
- European Union	Substantial reforms in the IMF. There is still a long way to go as regards global financial rules, the agenda for dignified jobs, and strengthening of international cooperation and the UN system. It is necessary to make progress with the Doha Round.
- Rio Group	It is necessary to make progress towards a stable financial system, change financial institutions' rules and reshape their architecture. It is necessary to reform voting rules in World Bank institutions. Strategies for fiscal cooperation. Mechanisms to follow up the Monterrey Consensus must be strengthened.
- UNCTAD	Most of the systemic issues dealt with in the Monterrey Consensus are still pending. There isn't a coordinated plan to reduce the risks of a forced landing of the global economy. It is necessary to go beyond national views and to assume global responsibilities. Proliferation of bilateral agreements as a result of discontent with progress of multilateral trade negotiations. Climate change as a challenge.
- ILO	Financial turmoil is an evidence of the failure in solving global imbalances. There is a lack of coherence in international policies. Importance of the agenda for dignified jobs.

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- ECLAC	International financial system offers few countercyclic instruments. ECLAC has made proposals to reinforce financial and institutional stability. Regional development banks must play a new role; it is necessary to strengthen FLAR and to make progress in consolidating regional capital markets.
- View shared by NGOs, Medical Mission Sisters and New Rules for Global Finance	Preventing financial crises requires cooperation in the areas of regulation and supervision. Principles of Basel II need to be improved. It is necessary to establish transnational financial supervision. Bretton Woods institutions need to be reformed. Use of HIPC standards to calculate quotas. Need for exchanges and cooperation on tax issues.

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