

United Nations Conference on Trade and Development

FINANCING FOR DEVELOPMENT

**Contribution by UNCTAD to the Follow-up
International Conference on Financing for
Development to Review the
Implementation of the Monterrey
Consensus**

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Foreword

Once again, the ongoing global financial crisis has highlighted the inherent defects of the global financial system and the high degree of interdependence between trade, finance and macroeconomic development policies. UNCTAD and a few others have for some time been warning of imbalances, speculation in the exchange rate, the housing bubble and other problems, out of concern that they could help trigger a global economic meltdown. These developments have been prompted by some of the systemic shortcomings that were already identified in the Monterrey Consensus in 2002 but were not, unfortunately, subsequently addressed with sufficiently vigorous multilateral action. One meaningful contribution that the Doha review process can make now is to relaunch a reform agenda for the international financial system that also takes into account the concerns and interests of the developing countries.

The developments that led to the global financial crisis have been exacerbated by unprecedented deregulation and liberalization – an approach frequently recommended by mainstream economists as the recipe for success in developing countries. Yet over-reliance on market discipline, combined with bankers' ingenuity in designing new financial products, has diverted attention from the clarity, transparency and quality of loans. Today, there is much talk of new rules and regulations, codes of conduct and Bretton Woods II – the kinds of policies that UNCTAD has been recommending for several years. Now, developed and developing countries alike are rushing to adopt policies deemed too heterodox in the previous global climate.

The current crisis will have major implications for the work of the United Nations, especially in the context of financing for development. At Doha, the financing for development process can only be reviewed against the backdrop of the current world economic turmoil. First, it is essential to ensure that bailouts, unwinding and recapitalization of financial institutions do not come at the expense of international and global efforts,

such as official development assistance in support of the Millennium Development Goals and climate change adjustment funds. Second, we must learn from the experience of this and previous crises, in order to pave the way for a multilateral approach to the reform of the international financial governance system. As UNCTAD has argued in many of its analytical reports, this will require revisiting the role of the State; it will also require prudential regulations and regulatory oversight. A new balance must be struck between freedom of capital markets and a reasonable degree of financial stability. Third, the so-called “capital flow paradox” should give rise to new reflections on how to recreate national and global financial systems in such a way that more and cheaper finance can be channelled into productive investment in developing countries, rather than relying on excessive expenditure and speculation on developed country financial markets. A better balance is needed here as well.

The Doha conference comes at a point in time when multilateral action to alleviate the impact of recent events on the developing world is urgently required. Moreover, the architecture of the global financial system must be redesigned even beyond this present context, and this must be a global undertaking and a United Nations initiative.

Supachai Panitchpakdi



Secretary-General of UNCTAD

Preface

The present publication is part of UNCTAD's contribution to the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, to be held 29 November–2 December 2008 in Doha, Qatar. It has evolved through a series of engagements on the part of the UNCTAD membership and secretariat.

The Trade and Development Board of UNCTAD – as part of its consideration of the interrelated issues of interdependence and systemic coherence addressed in September 2008 at its fifty-fifth session – reviewed the pressing issues emanating from the international economic agenda. (This was the first Board session following UNCTAD XII, which was held in Accra, Ghana, in April 2008.) In this connection, the Board considered it pertinent to provide support in the areas of UNCTAD's core competence to the preparatory process of the upcoming conference in Doha. At the same time, the Board's attention was fixed on the global financial crisis, which was emerging in full force through a variety of channels across continents.

The Board thus decided to hold an executive session to articulate its institutional contribution to the agenda to be addressed by Governments in Doha – particularly in the interrelated areas of trade, investment, finance and development – in the context of the raging global financial crisis. The agenda for the executive session was elaborated through an UNCTAD presidential consultation on 16 October 2008.

Against this backdrop, the first part of the publication captures the outcome of the deliberations which transpired during the forty-fifth executive session of the Trade and Development Board, held on 13 November 2008. Neither the reported highlights of the discussions nor the major conclusions are a negotiated text, but are instead a summary by the President. The report of the debate reflects the concerns of member States about the implementation of the Monterrey Consensus, especially the

anxiety from the severe setback the global financial crisis was going to have on the development process. The member States were unanimous in their view that the present financial crisis exposed a systemic fault of global economic governance, one that would need a systemic response to address this systemic crisis in the international monetary and financial system. The members also felt that the approach should go beyond “firefighting” activities, to cover consistent and coherent institutional measures (e.g. strengthening international mechanisms for financial oversights, and ensuring liquidity and solvency). In this context, it was considered that the upcoming conference provided a potential opportunity to review not only the core elements of the Monterrey Consensus, but also other global economic issues which had direct bearing on financing for development. The interventions at the Board’s executive session frequently referred to the upcoming meeting of G-20 countries held on 15 and 16 November in Washington, D.C., and expressed the hope that the conclave would objectively address the problems, taking into account the needs of developed and developing countries alike.

The second part of the publication contains an issues note, which was prepared to inform the debate of the Trade and Development Board executive session. The note reviews, from UNCTAD’s development perspective, the six core aspects of the Monterrey Consensus. These range from mobilization of domestic resources for development, to flows of official development assistance, to coherence of the international monetary and financial systems. It may be pointed out that all these issues fell squarely within the domain of the work programme specified under the Accra Accord. The issues note essentially highlights the new features that have evolved in the world economy since the adoption of the Monterrey Consensus in 2002. Some of the interesting trends identified in the note include the so-called paradox of capital flows and speculation in the commodity markets in general. The added value from the issues note comes from its analysis of the current global financial crisis, the impact of which is being increasingly felt in the developing world, particularly in its

most vulnerable segments. Thus, six years after its adoption, the Monterrey Consensus needs to be subjected to fundamental scrutiny at Doha in a very different global climate.

UNCTAD, as mandated by the United Nations General Assembly, remains an institutional stakeholder in global efforts to promote international trade and development through research and analysis, technical cooperation and consensus-building. In the face of one of the stiffest challenges to the global economy in a century, one reckons that the Doha conference would find the perspectives expressed in this publication not only engaging but also actionable.

I take this opportunity to thank all those whose ideas and efforts are embodied in this publication.



Debapriya Bhattacharya
President of the Trade and Development Board
Ambassador and Permanent Representative of Bangladesh

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