**Summaries of Issues and short bibliography of key material for conference on**

*"The Changing Shape of Global Development Finance – Impacts and implications for aid, development, the South and the Bretton Woods Institutions"*

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## 1. General overview

The landscape in which the international financial system is situated has entered into a remarkable period of transition, relative to two years ago.

Numerous countries have repaid their debts to the International Monetary Fund (IMF) ahead of schedule, leaving the Fund with a US$400 million annual deficit expected for 2010. Many of these same countries have indicated that they will not return to the IMF because of the burdensome conditions that it imposes on debtors.

Efforts to enhance the decision-making power of developing countries within these institutions have gone nowhere. The current debates around reforming the IMF quota system – to better reflect the economic weight of various emerging economies, but to also increase the decision-making power of developing countries – are moving at a glacial rate. When approved, the changes will be superficial. Furthermore, in the wake of the Wolfowitz scandal and the early resignation of IMF Managing Director Rodrigo de Rato, which presented a key opportunity to open up the selection process for the heads of both institutions, the Board elected to maintain the *status quo* with an American as head of the Bank and a European at the IMF.

Austere and ineffective policies prevail. In December 2006, the World Bank's internal auditor determined that despite Bank efforts to fight poverty, it has failed to increase incomes in many poor countries over the past decade, leaving tens of millions of people living in the same or worsening conditions. In January 2007, an internal audit by 25 independent academics, that assessed Bank research from 1998-2005, found that while the Bank does produce some "outstanding work", almost two-fifths of this research was simply used to "proselytize" Bank policies. Now a year later, the IMF's internal auditor has determined that the Fund's policy to "streamline" and reduce the number and scope of conditions attached to loans - a policy adopted in response to the burdensome and intrusive lending conditions the Fund placed on countries in East Asia at the time of the Asian financial crisis – essentially has had no impact.

In response to these and other issues, Southern governments are increasingly seeking alternatives to the Bank and Fund, a number of which are in development: a Bank of the South is emerging in Latin America, an $80 billion Monetary Fund has been created in Asia, and both China and India are providing Africa with condition-free financing that far surpasses current Bank allocations. New and innovative mechanisms are being developed for financing development and regulating private capital flows, and high level working groups are looking into issues such as capital flight, tax havens and remittances. While many of these new initiatives represent exciting new opportunities, it would be naïve to assume they are without their own challenges.

*With the exception of the first article, the four others in this section are much longer pieces.*

*Crisis of Credibility - The Declining Power of the International Monetary Fund*, Walden Bello and Shalmali Guttal Multinational Monitor, July/August 2005
http://www.thirdworldtraveler.com/IMF_WB/IMF_Crisis_Credibility.html

*Power Imbalances and Development Knowledge*, Norman Girvan, paper prepared for the project "Southern Perspectives on Reform of the International Development Architecture", Ottawa: The North South Institute, September 2007.
http://www.nsi-ins.ca/english/pdf/Power_Imbalances.pdf

*Limiting the roles of the World Bank and IMF: Towards alternative institutions*, Eurodad, October 2007
http://www.eurodad.org/uploadedFiles/Whats_New/Events/Eurodad_2007_annual_conference_report.pdf

*Reforming the International Aid Architecture: options and ways forward*, Simon Burral and Simon Maxwell, ODI Working Paper 278, October 2006.
http://www.odi.org.uk/publications/working_papers/wp278.pdf

*Executive Summary, Aid architecture: An overview of the main trends in official development assistance flows*, International Development Association, February 2007
http://siteresources.worldbank.org/IDA/Resources/Seminar%20PDFs/73449-1172525976405/3492866-1172527584498/Aidarchitecture.pdf

## 2. Financing for Development – the road from Monterrey to Doha

The United Nations -led Financing for Development process in Monterrey in 2002 came out of a need to examine the internationally agreed development goals adopted over the past decade at previous UN summits (and at a minimum the Millennium Development Goals (MDGs)), and to determine how to mobilize and increase the effective use of financial resources to be able meet these goals. The conference led to the Monterrey Consensus which focuses on six key areas:

1. Mobilizing domestic financial resources for development (good governance, sound economic policy and regulatory frameworks, transparent and accountable systems, investments in economic and social infrastructure, stronger domestic financial sector).
2. Mobilizing international resources for development: foreign direct investment and other private flows (transparent, stable and predictable investment climate; international and regional support for private sector investment in infrastructure; consideration of impacts of business activities; private/public partnerships; sufficient and stable financial flows).
3. International trade as an engine for development (trade liberalization; acknowledgement of structural barriers developing countries face; call for conclusion to Doha and strengthening of developing country capacity to participate meaningfully; support for regional and sub-regional trade agreements; greater market access for all; better coordination).
4. Increasing international financial and technical cooperation for development (importance of ODA; need for country ownership and leadership; need for massive increase in ODA (0.7%) to meet MDGs; ways to make ODA more effective; need to explore new innovative sources of financing development; importance of multilateral and regional development banks).
5. External debt (shared donor/borrower responsibilities for ensuring debt sustainability; importance of debt relief/cancellation through the Heavily Indebted Poor Country (HIPC) process for freeing up resources; additionality of resources for debt relief beyond ODA);
6. Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development (recognition of need to continually improve global economic governance; greater coordination (and surveillance) of macroeconomic policies through the IMF and new appropriate facilities to ensure greater global and regional financial stability; greater participation of developing countries in decision-making within the World Bank Group, IMF and WTO; greater coordination within, and strengthening of the UN system; call for conclusion of UN Convention on Corruption).

Many emerged from Monterrey feeling there was a general bargain between developed and developing countries, while others – largely civil society – concluded that Monterrey merely modified the “Washington Consensus” without addressing the fundamental need for change. NGOs declared in their collective message that they did not share the official consensus.

The Doha Conference is a follow-up to the 2002 meeting to review implementation of the Monterrey Consensus. It will take place on November 29-December 2, 2008, in Doha, Qatar. The resolution outlining the process is available on the FFD website: http://www.un.org/esa/ffd

*The Monterrey Consensus,* United Nations, March 2002
http://www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf

*Challenges in Financing for Development: Policy Issues for the Doha Conference*, Friedrich Ebert Stiftung, October, 2007.
http://www.fes-globalization.org/events/download/RetreatMeetingReport.pdf

*FAQs on Financing for Development*, Halifax Initiative Coalition, November 2007
http://www.halifaxinitiative.org/index.php/FAQs_FfD

*Financing for Development: Aid and Beyond*, OECD Development Centre, September 2007
http://www.oecd.org/document/18/0,3343,en_2649_33959_38468562_1_1_1_1,00.html

*The Road to Doha* (newsletter)
http://www.un.org/esa/ffd

## 3. Paris Declaration

To mark the five year review of the millennium development goals (MDGs), and building on previous high-level meetings in Rome on Aid Harmonization and Alignment and in Marrakech on Managing for Development Results, Ministers from around the world met in Paris in 2005 to agree on a series of common and monitorable actions to enhance aid effectiveness. Building on the call at Monterrey for a significant increase quantity of resources needed for financing development, Paris focused donors on the parallel need for improving the quality and effectiveness of delivering the anticipated increase to these aid resources.

Building on Rome and Marrakech, the Paris Declaration sets out five basic principles for improving aid effectiveness, a series of indicators, targets and a timetable for reviewing progress, and a plan for monitoring implementation. The five principles, which lay out commitments for both donors and partner countries, are as follows:

1. Ownership (Partner countries exercise effective leadership over their development policies, and strategies and co-ordinate development actions)
2. Alignment (Donors align with Partner countries' development policies, institutions and procedures and untie their aid; partner countries develop in country capacity with support from donors, including public financial management capacity and national procurement systems);
3. Harmonisation (Donors harmonize their arrangements and procedures for delivering aid, including for environmental assessements of development projects, and work towards a more effective division of labour in keeping with individual donors' respective comparative advantage; greater efforts are dedicated towards more effective aid delivery in fragile states);
4. Managing for results (aid delivery should be managed and implemented in a way that focuses on achieving results)
5. Mutual Accountability (acknowledges that both donors and borrowers are accountable for achieving results and managing development resources in a transparent and timely manner).

There is widespread recognition that the Paris Declaration addresses issues that are vital to making aid more effective, in particular in relation to the overall objective of enhancing development and reducing poverty. In particular, the Declaration emphasizes the importance of "country ownership" of the development process, and that donors must make greater efforts to more directly support poor countries' own development efforts.

Despite strong rhetorical support for the Declaration, a major recent survey found that implementation has been very slow. At the same time, the Declaration has been critiqued on a number of fronts. While it is the first international agreement to set measurable targets on improving aid effectiveness, it avoids doing so on some of the more difficult and controversial areas in which donor performance is poor. While it is the "talk of the town" in aid circles in donor countries, it is yet to gain significant currency in developing countries. It is also seen by many to be too focused on technical issues related to managing aid, while avoiding the more fundamental concerns held by poor countries regarding the reform of the international system.

The Declaration has also been criticized for not taking account of the very considerable role that civil society plays in contributing to aid effectiveness and development outcomes. This shortcoming was recognized in 2007 with the establishment of a multi-stakeholder Advisory Group on civil society and aid effectiveness. This group, which is led by Canada, will host an International Forum in Ottawa from Feb 3-6 2008, where it will present the findings from extensive global consultations.

It will then report to the High level forum in Accra, Ghana on September 2-4, 2008, which will review implementation of the Paris Declaration. This is a key meeting to follow up on the commitments made by donors and partner countries in 2005, and will also expand the dialogue on aid effectiveness by engaging a greater number of partner countries, as well as civil society and emerging donors.

*The Paris Declaration*, Organization for Economic Cooperation and Development, March 2005
http://www.oecd.org/dataoecd/11/41/34428351.pdf

*An Overview of the Paris Declaration and the new aid modalities*, Primer No. 1, Association for Women's Rights in Development, November 2007
http://www.awid.org/publications/primers/Primer1.pdf

*Accountability in Aid Effectiveness*, Charles Mutasa, AFRODAD, January 2008.
http://www.afrodad.org/index.php?option=com_content&task=view&id=253&Itemid=109

*From Paris 2005 to Accra 2008: Will aid become more accountable and effective?* International Civil Society Steering Group, 15 September 2001
http://www.betteraid.org/downloads/draft_cso_policy_paper.pdf

*The Paris Declaration on Aid Effectiveness, from a Right to Development perspective*, Robert Bissio, Third World Institute, Human Rights Council, Working Group on the Right to Development, A/HRC/8/WG.2/TF/CRP.7, 31 December 2007.
http://www.ifiwatchnet.org/?q=es/node/3908

*"2006 Survey on monitoring the Paris Declaration: Overview of the results"*, Organization for Economic Cooperation and Development – Development Co-operation Directorate (DAC), 14 September 2007
http://www.oecd.org/document/20/0,3343,en_2649_33721_38521876_1_1_1_1,00.html

## 4. Bank of the South

The “Banco del Sur” was established on December 9, 2007 in Buenos Aires when Presidents from Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela signed the Founding Act. When it is launched in 2008, the Bank is expected to have an initial capital base of between $5 and $7 billion, with Finance Ministers from the founding countries sitting on the Board as its Governors. While details of its statutes still have to be determined – still a big source of debate – el Banco del Sur will act as a development bank dispensing loans for infrastructure projects and regional integration plans. It will take some of the foreign exchange reserves that Latin American countries now place in US Treasury bills and instead invest them in their own development. Its proponents welcome it as an alternative to the World Bank and IMF, for the absence of externally imposed conditions tied to funding, and for the sovereignty it returns to countries in the region. Some critics fear it will fund projects that may have a detrimental impact on the environment and human rights. The Bank will have its headquarters in Caracas, Venezuela, with offices in Bolivia and Argentina. Discussions are still ongoing regarding the establishment of an effective Latin American Reserve Fund, probably through the strengthening of the existing Fondo Latinoamericano de Reservas.

*Brazil vs. Bank of the South*, Oscar Ugarteche, *America Latina em Movimento*, August 27, 2007
http://www.alainet.org/active/19278&lang=pt

*A Bank of Their Own: Latin America Casting Off Washington’s Shackles*, Mark Weisbrot, Center for Economic Policy Research, October 31, 2007
http://www.cepr.net/content/view/1346/45/

*Bank of the South Challenges Hegemony of World Bank and IMF*, John Dillion, KAIROS E-bulletin, November 7, 2007
http://www.kairoscanada.org/e/economic/debt/E-bulletin_debt_Nov07.asp

*The Bank of the South: New South American integration or a new instrument for domination?* Rede Brasil, November 19, 2007
http://ifis.choike.org/informes/732.html

Movimientos de todo el mundo se pronuncian sobre la creación del Banco del Sur, Jubileo Sur / Américas, http://jubileosuramerica.blogspot.com/2007/12/movimientos-de-todo-el-mundo-se.html

*The Bank of the South - Bolivarian Finance*, The Economist, December 13, 2007
http://www.economist.com/world/la/displaystory.cfm?story_id=10286290

## 5. Chiang Mai Initiative

In May 2007, ten years after the Asian Financial crisis – when Indonesia, Thailand and South Korea spent much of their foreign currency reserves propping up their exchange rates as investors abandoned them – Finance Ministers from 13 Asian nations (ASEAN + China, Japan and South Korea) agreed to collectively pool part of their $2.7 trillion reserves to forestall another such crisis. The May meeting was the extension of an arrangement initially reached in Chiang Mai, Thailand in 2000. The Chiang Mai Initiative (CMI) established a series of bilateral agreements between countries to borrow or 'swap' US$1-3 billion of a partner country's exchange rate reserves (called 'currency swaps') to address short term (90 day) balance-of-payments deficits and fight off currency speculation attacks. As of May, the bilateral agreement became multilateral, and the total size of money available under the CMI now stands at $80 billion. This to a large extent addresses earlier concerns that the small bilateral arrangements would be insufficient to address massive currency speculations and resulting crises. That said, while the initiative was in part an effort to move away from the International Monetary Fund – an institution that further aggravated the 1997 economic crisis with a series of harsh policies – countries borrowing more than 20% of the total $80 billion fund, must have an IMF support program. Nevertheless, the extension of the CMI to a multilateral arrangement is seen by many as an important counterweight (if not a total alternative) to the traditional financial architecture of the Bretton Woods Institutions. It is also seen as a first step towards a regional Asian Monetary Fund. The creation of a regional bond market (Asian Bond Fund Initiative) and single currency are also under discussion, but still some distance off.

*Regional Currency Swap Arrangement: A Step towards Asian Monetary Fund?* Walden Bello, Focus on the Global South, 2000
http://www.focusweb.org/publications/2000/Regional%20Currency%20Swap%20Arrangement.htm

*Asia Draws on $2.7 Trillion of Reserves to Safeguard Currencies*, Bloomberg, May 3, 2007
http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aIKwOaFW43dk

*Asian Monetary Fund? Politics could stand in the way of the region's new initiative*
http://english.ohmynews.com/articleview/article_view.asp?at_code=409447

**Longer**

*East Asia's Counterweight Strategy: Asian Financial Cooperation and Evolving International Monetary Order*, Injoo Sohn, Intergovernmental Group of 24, March 2007
http://www.g24.org/sohn0906.pdf

*Evolving Economic Architecture in East Asia*, Masahiro Kawai, Asian Development Bank Institute, Discussion Paper No. 84, December 2007
http://www.adbi.org/files/dp84.evolving.economic.architecture.east.asia.pdf

*Evolving ASEAN+3 Economic Review and Policy Dialogue: Towards Peer Review or Due Diligence*, Masahiro Kawai and Cindy Houser, Asian Development Bank Institute, Discussion Paper No. 79, September 2007.
http://www.adbi.org/files/dp79.asean3.regional.financial.cooperation.pdf

## 6. BRICs countries, with particular focus on China's aid programme

The term BRICs describes the emerging and rapidly growing economies of Brazil, Russia, India and China, whom Goldman Sachs in a 2003 paper anticipated would dwarf the world's current richest economies by 2050. Their combined GDP is expected at that time to be US$15.435 trillion and they will be home to 39% of the world's population. Even now, their growth is impressive. According to the IMF's data on current foreign exchange reserves, as of December 2007, Mainland China held US$1.47 trillion in hard currency reserves, Russia US$464 billion, India US$276 billion and Brazil US$177 billion (Canada by contrast had US$40 billion). All four economies are also becoming major sources of outward foreign direct investment (OFDI) i.e. buying up foreign companies in both developed countries and emerging markets. According to UNCTAD, BRICs account for 41% of all developing country OFDI. Brazil's OFDI grew from $249 million in 2003 to US$28.2 billion in 2006, Russia's from $9.7 to $18 billion, India's from US$1.9 to US$9.7 billion, and China's from US$2.9 to US$16.1 billion. In contrast, over the same period, all of African OFDI grew from US$1.3 to US$8.2 billion. Aid figures for BRICs are difficult to determine since the Organization for Economic Cooperation and Development does not compile figures for non-OECD countries.

Among the BRICs countries, China's involvement in Africa has perhaps garnered the most public attention. This is likely due to the size of investments (doubling current aid to the region by 2009, providing a further $5 billion in preferential loans and export credits, establishing a $5 billion China-Africa development fund to promote private investment and canceling all bi-lateral debt), the type of investments (infrastructure, large dams and resource extraction), the location of some of its investments (Sudan and Angola) and the fact that China refuses to attach any of the conditions typically associated with World Bank loans to its initiatives. While the Bank fears these investments may undermine Bank efforts in the region and may bring on a future debt crisis, some development experts have criticized China's practice of tying their aid to the purchase of Chinese goods and services, and environmentalists and human rights advocates have raised their own concerns.

There are also questions about how actors like China will "fit" among other bilateral aid donors, in particular those that are part of the OECD Development Assistance Committee. Will China uphold internationally agreed principles of aid effectiveness and join other donors in undertaking the commitments of the Paris Declaration? Or will it choose to operate outside these constraints, and provide aid in different ways that may be more appealing to African countries?

*China Competes With West in Aid to its Neighbours*, New York Times, September 18, 2006
http://www.nytimes.com/2006/09/18/world/asia/18china.html?pagewanted=1&_r=1

*China: Doubles aid and investment to Africa*, Third World Network, November 2006,
http://www.twnside.org.sg/title2/finance/twninfofinance010.htm

*China in Africa: It's (Still) the Governance, Stupid*, Akwe Amosu, Foreign Policy in Focus, March 2007
http://www.fpif.org/fpiftxt/4068

*The Chinese Aid System*, Carol Lancaster, Center for Global Development Essay, June 2007
www.cgdev.org/files/13953_file_Chinese_aid.pdf

**Longer**

*African Perspectives on China in Africa*, Firoze Manji and Stephen Marks (ed.), Fahamu, 2007.
http://www.fahamu.org/downloads/cia_download.pdf

## 7. New Sources of Financing

The development finance landscape has also seen the arrival of new, significant and often private sources of global development finance, as well as a range of new innovative mechanisms for financing development.

*Vertical funds*

So called "vertical funds" are sources of development finance that are vertically earmarked towards a single issue, such as fighting HIV-AIDS, malaria or TB, rather than horizontally towards a programme area, such as building better health care systems. Since the late 1990s, and the arrival of the Global Fund to Fight AIDS, Tuberculosis and Malaria, there has been a boom in such funds, primarily geared towards disease prevention and control. This has come from both the public sector, for example, the US President's Emergency Plan for AIDS Relief, and through private philanthropy, for example, the Bill and Melinda Gates Foundation. The World Bank has noted that around 50% of multilateral ODA in 2005 was earmarked. While this funding has brought an increased focus on disease control and prevention, it has to some extent created a specialized market for these specific diseases to the detriment of strengthening public health care systems within countries. Critics have thus been calling for a "diagonal" that would complement the vertical funds with sector-level and country level policies.

*Solidarity Funds for Development and other new innovative mechanisms*

In 2003, President Chirac of France commissioned a report by a group of experts headed by Jean-Pierre Landau – the working group on new international financial contributions. The December 2004 report made the case for establishing levies, coordinated internationally, but implemented at a national level, that would provide additional resources for financing development beyond official development assistance (ODA). With strong support from France and Brazil, in 2006 an informal Leading Group on Solidarity Levies to Fund Development was established to move discussions around innovative financing mechanisms forward. Some of the initiatives to have come from this are an international airlines levy and UNITAID, an International Finance Facility for Immunization, a working group on combating tax havens and capital flight, studies on a currency transaction development levy (CTT) and migrant's remittances, and progress on advanced market commitments (AMC) on vaccine development.

*An Overview – Innovative Financing Mechanisms*, Interagency Coalition on AIDS and Development, September 2007
http://www.icad-cisd.com/content/pub_details.cfm?ID=229&CAT=9&lang=e

*FAQs on the Leading Group on Solidarity Levies for Development*, Halifax Initiative Coalition, November 2007
http://www.halifaxinitiative.org/index.php/FAQs_Leading_Group

*Innovative sources of financing for development: The Currency Transaction Tax*, Rodney Schmidt, The North-South Institute, October 20, 2007
http://www.nsi-ins.ca/english/pdf/UNGA_RSchmidt_Oct.20.pdf

*A War Chest for Fighting HIV/AIDS*, Maureen Lewis, Center for Global Development, December 2005
http://www.imf.org/external/pubs/ft/fandd/2005/12/lewis.htm

## 8. Additional key readings - Beyond the Aid Box

*Domestic Resource Mobilization*

Putting Finance for Development in Perspective, Isabel Ortiz
http://www.ideaswebsite.org/news/nov2007/Putting_Financing.pdf

Fiscal Impact of Aid Flows: evidence from Ethiopia (IPC-UNDP One Pager, 2007)
http://www.undp-povertycentre.org/pub/IPCOnePager43.pdf

Raising Domestic Revenue for MDGs (IPC-UNDP One Pager, 2007)
http://www.undp-povertycentre.org/pub/IPCOnePager39.pdf

Using ODA to Accumulate Foreign Reserves (IPC-UNDP One Pager, 2007)
http://www.undp-povertycentre.org/pub/IPCOnePager37.pdf

*Longer pieces*

Making Finance Work for Africa (World Bank, 2007)
http://go.worldbank.org/WVFPF5CYJ0

Reclaiming Policy Space: Domestic Resource Mobilization and Development States (UNCTAD, 2007)
http://www.unctad.org/Templates/WebFlyer.asp?intItemID=4334&lang=1

*South-North flows*

*Reverse Foreign Aid*, Tina Rosenberg, New York Times, March 25, 2007.
http://www.nytimes.com/2007/03/25/magazine/25wwlnidealab.t.html

*Capital Flight and Tax Havens*

*The IMF and capital flight: Redesigning the international financial architecture*, David Spencer, Senior Adviser, Tax Justice Network, January 2006
http://www.brettonwoodsproject.org/art-507905

*Looting Africa: some facts and figures*, Tax Justice Network for Africa, January 2007
http://www.taxjustice4africa.net/cms/upload/pdf/TJN4Africa_Looting_Africa_-_facts_and_figures.pdf

*Gone offshore*, Peter Gillespie, Inter Pares, July 2007
http://www.interpares.ca/en/story/gone_offshore.php

*The possibilities and perils of private capital*

*Private Equity is on the Prowl*, by Ignacio Ramonet, Le Monde Diplomatique, November 2007
http://mondediplo.com/2007/11/01leader

*Why finance will not be unfettered*, Financial Times Editorial, June 25, 2007,
http://www.ft.com/cms/s/d92314d2-22b7-11dc-ac53-000b5df10621.html