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REPORT

THE FOLLOW UP TO THE INTERNATIONAL CONFERENCE ON FINANCING FOR DEVELOPMENT IN THE ESCWA REGION

Summary

According to the Monterrey Consensus, which was the outcome of the International Conference on Financing for Development (Monterrey, Mexico 18-22 March 2002), market forces alone cannot mobilize the necessary development funds to achieve the Millennium Development Goals (MDGs) by 2015. Specifically, the Monterrey Consensus identified the factors that influence development finance, and provided a forum for follow-up activities by Governments, intergovernmental agencies, regional organizations and the private sector.

In that regard, ESCWA has taken a leading role in providing a regional platform to discuss the Monterrey Consensus and to identify ways and means to facilitate development finance in the ESCWA region. In the light of the forthcoming second International Conference on Financing for Development, which will be held in Doha in 2008, ESCWA is again taking a leading role aimed at ensuring that member countries participate actively in the Conference by preparing briefing documents on the six leading actions of the Monterrey Consensus and by organizing, in early 2008, a regional preparatory expert group meeting.

This report provides analysis and review of the progress made by ESCWA member countries in the implementation of the Monterrey Consensus, particularly on issues with direct impact on member countries, including foreign direct investment (FDI), debt relief and debt management, and trade issues. Additionally, it covers issues related to technical assistance and cooperation in areas of FDI statistics being provided by ESCWA to its member countries. The report provides a set of policy recommendations to policymakers in the region on how best to implement the Monterrey Consensus.

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I. THE INTERNATIONAL CONFERENCE ON FINANCING FOR DEVELOPMENT

1. The International Conference on Financing for Development (Monterrey, March 2002) was held in response to studies that revealed that financial resources, especially Official Development Assistance (ODA), were falling short of providing the financing necessary to meet the obligations under the United Nations Millennium Declaration.[1] Estimates disclosed that some $25-50 billion a year of additional aid for developing countries would be needed to halve world poverty by the deadline of 2015, which represented nearly double the levels of ODA at the beginning of the twenty-first century.[2]

2. The participants of the International Conference formulated the Monterrey Consensus, which recognized that market forces, if left to themselves, would be insufficient to mobilize the necessary development funds. Moreover, the Monterrey Consensus highlighted a number of leading actions that correspond with Millennium Development Goal (MDG) 8, namely, to "develop a global partnership for development" and incorporating targets 12 and 15 (see box 1).[3]

Box 1. The six leading actions of the Monterrey Consensus

The six leading actions of the Monterrey Consensus are as follows:

(a) Mobilizing domestic financial resources for development;

(b) Mobilizing international resources for development: foreign direct investment and other private flows;

(c) International trade as an engine for development;

(d) Increasing international financial and technical cooperation for development;

(e) External debt;

(f) Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development.

Source: United Nations, "Report of the International Conference on Financing for Development" (A/CONF.198/11).

3. An important feature of the Consensus is to provide a forum for follow-up activities by Governments, intergovernmental agencies, regional organizations and the private sector. Participants of the Conference committed to remain fully engaged at the national, regional and global levels in order to ensure effective implementation of the Agreement; and the United Nations authorized regional commissions to help to monitor Consensus activities by member countries in their respective regions and to assist member countries in their efforts to stimulate development finance.[4] Item 68 of the Monterrey Consensus underscores the need

[1] General Assembly resolution 55/2 of 18 September 2000 on the United Nations Millennium Declaration.

[2] The World Bank, "Global development finance 2005: Mobilizing finance and managing vulnerability" (2005), which is available at: www.worldbank.org.

[3] More specifically, Goal 8 corresponds with two targets within Goal 8, namely: target 12, which aims to "develop further an open trading and financial system that is rule-based, predictable, and non-discriminatory and includes a commitment to good governance, development and poverty reduction – nationally and internationally"; and target 15, which aims to "deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term".

[4] Within that context, see General Assembly resolution 57/270 A and B of 24 January 2003 and 3 July 2003 on integrated and coordinated implementation of and follow-up to the outcomes of the major United Nations conferences and summits in the economic and social fields; Economic and Social Council resolution 2005/48 of 27 July 2005 on the role of the Economic and Social Council in the integrated and coordinated implementation of the outcomes of and follow-up to major United Nations conferences and summits; and Economic and Social Council resolution 2006/45 of 28 July 2006 on the follow-up to the International Conference on Financing for Development.

to "build a global alliance for development will require an unremitting effort. We thus commit ourselves to keeping fully engaged, nationally, regionally and internationally, to ensuring proper follow-up to the implementation of agreements and commitments reached at the present Conference, and to continuing to build bridges between development, finance, and trade organizations and initiatives, within the framework of the holistic agenda of the Conference. Greater cooperation among existing institutions is needed, based on a clear understanding and respect for their respective mandates and governance structures".[5]

4. The United Nations is organizing the second International Conference on Financing for Development in Doha, in the second half of 2008. ESCWA is keen to promote the active participation of its member countries in this important global event, particularly given the leading role played by the Commission in providing a regional platform to discuss the Monterrey Consensus. In that light, ESCWA is organizing a regional preparatory meeting to be held in the first quarter of 2008 aimed at following up on the status of implementation of the Monterrey Consensus and at tackling issues that are important to the region. Prior to that regional preparatory meeting, briefing documents on each of the six leading actions of the Monterrey Consensus will be distributed to ESCWA member countries.

II. ECONOMIC GROWTH IN THE ESCWA REGION AFTER MONTERREY

5. Economic growth in the ESCWA region has benefited from world petroleum prices. The boom in petroleum revenues for the oil-exporting countries of the region has financed development activities across the region through intraregional ODA. Equally, worker remittances have redistributed surplus capital from the oil-exporting countries to the labour-abundant and lower-income economies in the region. Successful efforts towards trade liberalization have stimulated non-petroleum trade flows, which are becoming a greater source of earnings for the region. Unfortunately, the heavy external debt burden of some ESCWA member countries and ongoing political conflicts continue to slow economic growth and development across the region.

6. On a positive note, the trickle of FDI inflows to ESCWA member countries grew from 0.3 per cent of world FDI flows in 2002 to 3.3 per cent in 2005; and net private capital flows to the ESCWA region rose from $11.3 billion in 2002 to $54.3 billion in 2005.[6] While direct investment contributed the bulk of private flows in 2002, net private capital flows were equally split by 2005 between direct investment and portfolio investment. Gross capital formation in the ESCWA region grew by 33 per cent between 2000 and 2004, from $89 billion to $118 billion.[7] The bulk of this capital growth was in the countries of the Gulf Cooperation Council (GCC). The more diversified economies (MDEs) in the ESCWA region experienced modest gross capital formation, from $27 billion in 2000 to $32 billion in 2004.

7. Moreover, the annual percentage change in the gross domestic product (GDP) of the region rose from 1.3 per cent in 2002 to 6.4 per cent in 2005, despite the high population growth in the region, which negates some of the per capita gains in income growth (see table 1). The growth spurt of GDP in recent years is primarily the result of high world petroleum prices and oil revenues in the oil-exporting countries, particularly the GCC. MDEs of the ESCWA region experienced more modest GDP growth over the same period. The ESCWA region continues to lag behind other regions of the world. For example, the ESCWA region accounted for 2.8 per cent of the world's population in 2002, while the combined regional GDP was a modest 1.8 per cent of world income, and remained at this level through 2005.[8] This low share of world income is striking, particularly in the light of the fact that the region held 57.2 per cent of world oil reserves and contributed 24.9 per cent of world oil production in 2002.

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[5] United Nations, "Report of the International Conference on Financing for Development" (A/CONF.198/11).

[6] J. Ocampo, J. Kregal and S. Griffith-Jones, *International Finance and Development* (Zed Books, 2007), table I.1, p. 23.

[7] ESCWA, *National Account Statistics of the ESCWA Region*, Bulletin No. 25 (2005).

[8] ESCWA, "Annual review of developments in globalization and regional integration in the countries of the ESCWA region, 2005" (E/ESCWA/GRID/2005/13), table 1; and "Annual review of developments in globalization and regional integration in the countries of the ESCWA region, 2006" (forthcoming publication).

TABLE 1. SELECTED ECONOMIC INDICTORS FOR THE ESCWA REGION

	2002	2003	2004	2005
Real GDP growth rate (annual percentage change):	1.3	5.2	6.8	6.4
GCC countries	1.1	8.7	7.2	6.9
More diversified economies (MDEs), excluding Iraq and Palestine	3.3	3.6	4.6	4.8
Inflation rate:		2.9	4.6	3.9
GCC countries	0.8	1.3	1.8	2.7
MDEs	3.2	4.4	8.8	3.3

Source: ESCWA, *Survey of economic and social developments in the ESCWA region 2004-2005* and *2005-2006* (E/ESCWA/EAD/2005/6 and E/ESCWA/EAD/2006/2).

A. DOMESTIC FINANCIAL RESOURCES AND FOREIGN DIRECT INVESTMENT

8. Developing countries have domestic financial resources, including banking sectors and capital markets, which provide financing for development projects and economic growth. Under the Monterrey Consensus, the public sectors of developing countries are tasked with providing regulatory frameworks that support domestic financial markets in order to foster a dynamic and well functioning business sector. The private sectors are encouraged to provide a transparent and reliable business climate through good corporate practices, entrepreneurship and innovative financial approaches in financial markets to stimulate economic activity. The role of FDI is especially important for developing countries, given its potential to transfer technology and managerial skills, open channels to foreign markets through vertical and horizontal integration, and increase international competitiveness of domestic industries.

9. The country with the highest value of banking assets in the ESCWA region in 2005 was Saudi Arabia, followed closely by the United Arab Emirates, Egypt and Bahrain (see table 2). However, the country with the highest post-Monterrey Consensus growth rate for banking assets was Qatar, with a 101 per cent growth rate between 2002 and 2005; and the United Arab Emirates was second with a growth rate of 92 per cent. Most ESCWA member countries experienced growth in their banking assets over this time period, namely, Bahrain, at 65 per cent; Egypt, at 56 per cent; Jordan, at 39 per cent; Kuwait, at 17 per cent; Lebanon, at 30 per cent; Oman, at 15 per cent; Syrian Arab Republic, at 22 per cent; and Yemen, at 33 per cent.[9]

TABLE 2. TOTAL BANK ASSETS IN THE ESCWA REGION, 2002-2005
(Millions of United States dollars)

	2002	2003	2004	2005
Bahrain	73 996	100 934	101 944	122 132
Egypt	83 651	99 177	111 943	130 866
Jordan	21 325	22 146	25 100	29 731
Kuwait	56 936	63 855	64 800	66 530
Lebanon	54 547	62 344	65 000	71 000
Oman	11 332	11 733	12 723	13 082
Qatar	17 210	20 907	25 282	34 520
Saudi Arabia	135 523	145 381	174 769	188 878
Syrian Arab Republic	23 245	25 685	28 382	..
United Arab Emirates	90 279	99 907	112 661	173 703
Yemen	2 694	3 065	3 593	..

Sources: Compiled by ESCWA, based on Union of Arab Banks, *The Magazine* (November 2004); Central Bank of Egypt, *Quarterly Reports* (2006); and Qatar Central Bank, *Quarterly Statistical Bulletins* (2006).

Note: Two dots (..) indicate that data are not available or are not separately reported.

[9] Percentages for Syrian Arab Republic and Yemen are calculated for the period 2002 to 2004.

10. Most ESCWA member countries have at least one domestic capital market, with the exception of the Syrian Arab Republic and Yemen; Egypt and the United Arab Emirates have two domestic capital markets; and the Saudi Stock Market has the highest market capitalization in the ESCWA region (see table 3). After the Monterrey Consensus, capital markets in the ESCWA region experienced significant growth in market capitalization and listed companies between 2002 and 2005. The highest growth rate over this period was 1083 per cent by the Dubai Financial Market. Over the same period, Abu Dhabi Securities Market grew by 550 per cent, Amman Stock Exchange by 431 per cent, Bahrain Stock Exchange by 125 per cent, Beirut Stock Exchange by 252 per cent, Cairo and Alexandria Stock Exchanges by 202 per cent, Doha Securities Market by 725 per cent, Kuwait Stock Exchange by 253 per cent, Muscat Securities Market by 129 per cent, and the Saudi Stock Market by 763 per cent.

TABLE 3. MARKET CAPITALIZATION IN THE ESCWA REGION, 2002-2006
(Millions of United States dollars)

	2002	2003	2004	2005	2006
Abu Dhabi Securities Market	20 376	30 363	55 490	132 413	82 076
Amman Stock Exchange	7 087	10 963	18 383	37 639	35 416
Bahrain Stock Exchange	7 716	9 702	13 513	17 364	16 947
Beirut Stock Exchange	1 395	1 503	2 331	4 917	6 925
Cairo and Alexandria Stock Exchanges	26 339	27 847	38 077	79 508	74 364
Doha Securities Market	10 567	26 702	40 435	87 143	63 299
Dubai Financial Market	9 470	14 284	35 091	111 993	88 122
Kuwait Stock Exchange	35 099	59 528	73 581	123 895	126 285
Muscat Securities Market	5 268	7 246	9 318	12 062	11 735
Palestine Stock Exchange	..	..	..	3 158	2 750
Saudi Stock Market	74 851	157 306	306 256	646 121	425 107

Source: Compiled by ESCWA, based on data from the Arab Monetary Fund, which is available at: www.amf.org.ae.

Note: Two dots (..) indicate that data are not available or are not separately reported.

11. However, many capital markets in the ESCWA region were compelled to make major corrections in 2005 and 2006. For example, between December 2005 and October 2006, the market capitalization fell by 38 per cent on the Abu Dhabi Financial Market, by 6 per cent on the Amman Stock Exchange, by 2 per cent on the Bahrain Stock Exchange, by 6 per cent on the Cairo and Alexandria Stock Exchanges, by 27 per cent on the Doha Securities Market, by 21 per cent on the Dubai Financial Market, by 3 per cent on the Muscat Securities Market, and by 34 per cent on the Saudi Stock Market. Only the Beirut Stock Exchange and Kuwait Stock Exchange experienced positive growth in market capitalization during this crisis period at 41 per cent and 2 per cent, respectively. While the stock market corrections in the ESCWA region adversely affected investors and domestic banks, especially given that many investors used bank loans to purchase stock, the crisis was a regional adjustment and not linked to any larger crisis in global financial markets.

12. Governments in the ESCWA region are in the process of revising and modernizing their financial regulations to meet the demands of their growing banking sectors and capital markets,[10] including as follows: (a) adopting Basel II international banking standards; (b) encouraging the use of International Accounting Standards in the private sector; (c) opening domestic banking and insurance sectors to foreign companies in compliance with commitments under the General Agreement on Trade in Services (GATS); and (d) facilitating cross-border trading, cross-border listing, foreign investor access to the domestic capital markets, investor guarantees, and initial public offerings of State-owned assets. These new measures and regulations are aimed at attracting intraregional and foreign investors, as well as improving the efficiency of the domestic financial markets. Islamic banking has grown rapidly in the ESCWA region and while it presents

[10] For details of policies and regulations adopted by ESCWA member countries, see the following: ESCWA, "Progress made by ESCWA member countries in the implementation of the Monterrey Consensus" (E/ESCWA/GRID/2005/5); and ESCWA, "Report on the follow-up on the implementation of the International Conference on Financing for Development in the ESCWA region" (E/ESCWA/GRID/2003/38).

unique challenges for central banks and governmental regulators, its role in mobilizing regional savings can increase financial resources for development.[11]

13. Attracting FDI to the ESCWA region can provide significant benefits. Specifically, FDI adds to the sources of development finance to increase employment, reduce poverty, provide education and health services, and build infrastructure. Moreover, domestic firms that are associated with FDI have the opportunity to adopt new technologies and improve managerial skills in order to compete in international markets. Regional industries gain productivity and competitiveness by exposure to competition with domestic companies financed by FDI and through the transfer of experience from global companies. New market opportunities are opened for domestic industries through production-sharing with international firms that can expand the reach of domestic companies and further increase regional employment. Governments in the ESCWA region have exerted numerous efforts aimed at attracting private investment by drafting new laws and regulations and implementing their World Trade Organization (WTO) commitments under GATS.

14. FDI inflows in the ESCWA region have grown albeit not at the same rate as other developing regions, with the exception of investment in the oil and natural gas sectors. In addition to the problem of attracting FDI, major outflows of capital have drained the region of potential development finance. These outflows increased significantly in 2004 and 2005, primarily from the GCC countries in response to the windfall revenues from oil exports during a time of high world oil prices (see table 4). For example, total outflows of FDI from the six countries of the GCC in 2005 were $14 billion. At the same time, inflows of FDI to Egypt, Jordan, Lebanon and Syrian Arab Republic combined reached $10 billion, while Yemen, the only least developed country in the ESCWA region, experienced net FDI outflows of $266 million.

TABLE 4. FDI INFLOWS AND OUTFLOWS IN THE ESCWA REGION, 2002-2005
(Millions of United States dollars)

	Direction	2002	2003	2004	2005
Bahrain	inward	217	517	865	1 049
	outward	190	741	1 036	1 123
Egypt	inward	647	237	2 157	5 376
	outward	28	21	159	92
Iraq	inward	(2)	..	90	300
	outward	..	..	..	..
Jordan	inward	75	436	651	1 532
	outward	..	..	..	..
Kuwait	inward	3	(67)	24	250
	outward	(76)	(4 962)	2 528	4 709
Lebanon	inward	1 336	2 860	1 899	2 573
	outward	..	611	827	715
Oman	inward	109	489	200	715
	outward	..	153	250	44
Qatar	inward	624	625	1 199	1 469
	outward	(21)	(2)	192	352
Saudi Arabia	inward	453	778	1 942	4 628
	outward	143	83	709	1 183
Syrian Arab Republic	inward	115	180	275	500
	outward	..	..	..	..
United Arab Emirates	inward	1 307	4 256	8 359	12 000
	outward	407	991	1 007	6 661
Yemen	inward	102	6	144	(266)
	outward	11	..	..	..

Source: United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2006*, which is available at: www.unctad.org/FDIstatistics.

Note: Two dots (..) indicate that data are not available or are not separately reported.

[11] ESCWA, "Progress made by ESCWA member countries in the implementation of the Monterrey Consensus" (E/ESCWA/GRID/2005/5).

15. Given the volatility of FDI inflows from year to year, it is useful to look at the stock of FDI (see table 5). Bahrain and Lebanon had the highest levels of FDI relative to GDP in 2005. In the case of Bahrain, the stock to GDP ratio fell slightly from 2004, which can be attributed to the strong GDP performance from high oil prices. In Lebanon, the FDI stock to GDP ratio rose significantly between 2002 and 2005, reflecting the boom years of growth and development following the end of the civil war that attracted significant amounts of intraregional FDI.

TABLE 5. FDI STOCKS TO GDP RATIOS IN THE ESCWA REGION, 2002-2005
(*Percentages*)

	FDI stocks to GDP ratio			
	2002	2003	2004	2005
Bahrain	73.7	72.4	70.5	64.1
Egypt	24.3	26.2	27.1	31.0
Jordan	25.7	28.3	31.9	39.8
Kuwait	1.3	1.2	0.7	0.9
Lebanon	9.4	11.0	11.6	68.5
Oman	12.9	12.6	14.0	13.3
Qatar	16.3	16.0	14.6	16.2
Saudi Arabia	13.5	12.1	8.2	8.5
Syrian Arab Republic	9.5	9.5	52.6	31.9
United Arab Emirates	4.3	4.4	4.6	21.1
Yemen	..	..	..	6.5

Source: United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2004: The shift towards services* (2004), annex tables B.5 and B.6; and *World Investment Report 2004: Transnational corporations and the internationalization of R and D* (2005), annex table B.3.

Note: Two dots (..) indicate that data are not available or are not separately reported.

B. INTERNATIONAL TRADE AS AN ENGINE FOR DEVELOPMENT

16. International trade is another venue for stimulating financial resources for development. It is especially useful as an essential source of foreign exchange for purchasing foreign inputs and technology necessary for the development process. Establishing modern institutions and policies that support trade sectors in developing countries help to level the playing field for domestic industries. Moreover, accession to the rules-based WTO provides market access for exporters in developing countries and needs to be supported by Governments in those countries and their industrialized trading partners.

17. The Doha Round of WTO addresses several issues facing developing and least developed countries, particularly in the area of agricultural trade which has long been a protected sector in industrialized countries. Within the framework of the multilateral trading system, bilateral and regional trade liberalization agreements can lead to increased market access and competition, including, for example the Euro-Mediterranean Partnership agreements. Such South-South trade liberalization efforts as the Greater Arab Free Trade Area (GAFTA) and the customs union of the GCC are equally vital for preparing regional producers for international competition and opening Arab regional integration that historically has lagged behind other developing regions in terms of intraregional trading volumes.

18. Within the framework of the Monterrey Consensus, developed countries are committed to supporting the trade liberalization efforts of developing countries through technical and financial assistance, especially in the case of lost tariff revenues that threaten Government finances for such social services as education and health.

19. ESCWA member countries have pursued numerous routes towards trade liberalization and trade facilitation in recent years. ESCWA region export value grew by 57 per cent between 2002 and 2004 (see table 6). Growth of export value in the countries of the GCC, at 53 per cent over the same period, was

more highly influenced by rising petroleum prices than a growth in export volume. The trade-promoting policies of ESCWA member countries included multilateral trade negotiations, North-South and South-South bilateral agreements, and intraregional trade facilitation.

TABLE 6. EXPORT VALUE FOR COUNTRIES OF THE ESCWA REGION, 2002-2005
(Millions of United States dollars)

	2002	2003	2004
Bahrain	5 794	6 632	7 250
Kuwait	14 184	18 366	24 680
Oman	11 172	11 669	13 430
Qatar	10 978	13 382	16 897
Saudi Arabia	72 561	93 368	120 800
United Arab Emirates	52 163	65 835	72 500
Total GCC countries	166 852	209 252	255 557
Egypt	4 688	6 189	7 550
Iraq	9 990	9 711	17 700
Jordan	2 770	3 082	3 950
Lebanon	1 045	1 524	1 747
Palestine	240	260	289
Syrian Arab Republic	6 756	5 816	5 650
Yemen	3 648	3 934	4 350
Total ESCWA region	195 989	239 768	296 784

Source: ESCWA, *External trade bulletin of the ESCWA region.*

20. ESCWA member countries have been actively involved in WTO, particularly the Doha Round that was launched in Doha in 2001. WTO members from the ESCWA region include Bahrain, Egypt, Jordan, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.[12] Additionally, three ESCWA members are negotiating their WTO accession packages, namely, Iraq, Lebanon and Yemen.

21. ESCWA members negotiating a new round of bilateral Euro-Mediterranean Partnership agreements include Egypt, Jordan, Lebanon, Palestine and Syrian Arab Republic. Moreover, the GCC is negotiating with the European Union as a block for a bilateral trade agreement. The six countries of the GCC successfully implemented a customs union on 1 January 2003 by adopting a common external tariff of 5 per cent on imports into the Gulf subregion and by eliminating tariffs on intra-GCC trade. Equally, GAFTA, which comprises 19 Arab countries, successfully eliminated intra-GAFTA tariffs on 1 January 2005. Intra-Arab trade reached $57.4 billion in 2004 and is expected to increase in response to implementation of GAFTA tariff reductions.[13]

22. Moreover, Egypt, Jordan, Morocco and Tunisia signed the Agadir Agreement in 2004 to facilitate intraregional trade to complement their bilateral Euro-Mediterranean Partnership agreements. In terms of promoting intraregional trade in the ESCWA region, the remaining challenges include non-tariff and transportation barriers.

C. OFFICIAL DEVELOPMENT ASSISTANCE AND DEBT RELIEF

23. ODA is recognized as an essential source of development finance, especially for least developed countries and those unable to attract FDI. The Monterrey Consensus recognizes that developing countries are the owners of their national development plans and, in this regard, are responsible for adopting sound

[12] Saudi Arabia represents the latest ESCWA member to accede to the World Trade Organization, having acceded on 11 November 2005.

[13] ESCWA, "Annual review of developments in globalization and regional integration in the countries of the ESCWA region, 2005" (E/ESCWA/GRID/2005/13).

policies and good governance aimed at ensuring effective use of ODA. Donor countries agreed to increase ODA substantially to 0.7 per cent of gross national product (GNP), and to 0.15-0.20 per cent of GNP for least developing countries, in order to help developing countries to meet their MDGs. The Bretton Woods institutions and regional development banks continue to play a vital role in this process. Technical assistance can assume a larger role through capacity-building for developing countries in the areas of external debt management and debt tracking, implementation of trade agreements and attracting FDI.

24. External debt relief as a form of ODA has increased in recent years and is an important component of sustainable debt management for Heavily Indebted Poor Countries (HIPC). While ESCWA member countries do not qualify for HIPC debt relief, several members are heavily debt-burdened, especially in relation to their GNPs and export earnings (see tables 7 and 8). There is some concern that the rising use of debt relief to assist developing countries could come at the expense of other forms of ODA. Consequently, donor countries are urged not to allow debt relief to detract from ODA resources, rather to increase ODA irrespective of debt forgiveness.

TABLE 7. TOTAL DEBT STOCKS IN SELECTED ESCWA MEMBER COUNTRIES, 2002-2004

	2002	2003	2004
Egypt	30 001	31 383	30 291
Jordan	8 108	8 337	8 175
Lebanon	17 077	18 598	22 177
Oman	4 708	3 963	3 872
Syrian Arab Republic	21 466	21 566	21 521
Yemen	5 225	5 375	5 488

Source: The World Bank, "Global development finance 2005: Mobilizing finance and managing vulnerability" (2005), which is available at: www.worldbank.org.

TABLE 8. DEBT INDICATORS IN SELECTED ESCWA MEMBER COUNTRIES, 2001-2003
(*Percentage averages*)

	External debt/ national income	External debt/ export value	External debt service/ export value
Egypt	35	147	13
Jordan	90	125	17
Lebanon	104	458	80
Oman	19	32	11
Syrian Arab Republic	112	264	4
Yemen	57	102	3

Source: The World Bank, "Global development finance 2005: Mobilizing finance and managing vulnerability" (2005), which is available at: www.worldbank.org.

25. The largest ESCWA member recipient of ODA in 2004 was Iraq, which received 54 per cent of total aid to the ESCWA region (see table 9). Other top aid recipients included Egypt, at 17 per cent, and Palestine, at 13 per cent. Yemen, with a population of some 18 million, received a modest 2.9 per cent of total ODA to the ESCWA region in 2004. By comparison, Lebanon, with a population of 4 million, received $265 million of ODA in 2004. ODA flows have historically been driven by the agendas of the donor countries and can fluctuate greatly from year to year, thereby making ODA an unreliable source of finance for long-term development planning. Additionally, the rising number of emergencies across the world has drained ODA resources away from sustainable development projects aimed at achieving MDGs in order to fund short-term emergency relief.

TABLE 9. ODA FLOWS TO THE ESCWA REGION, 2002-2004
(Millions of United States dollars)

	2002	2003	2004	Top three aid sources for 2003-2004
Bahrain	71	77	104	Arab countries, France, Japan
Egypt	1 239	988	1 458	United States, EU, France
Iraq	116	2 265	4 658	United States, Japan, United Kingdom
Jordan	520	1 228	581	United States, UNRWA, Japan
Kuwait	5	4	3	France, Arab agencies, UNTA
Lebanon	453	226	265	EU, France, UNRWA
Oman	41	38	55	Arab countries, Belgium, Japan
Palestine	1 616	972	1 136	UNRWA, United States, EU
Qatar	2	2	2	France, UNDP, Korea
Saudi Arabia	27	22	32	France, Japan, Turkey
Syrian Arab Republic	81	153	110	EU, Arab countries, Japan
United Arab Emirates	4	5	6	France, Germany, United States
Yemen	584	234	252	IDA, Germany, United States
Total ESCWA region	4 759	6 203	8 651	

Source: Compiled by ESCWA, based on data from the Organisation for Economic Co-operation and Development, which is available at: www.oecd.org.

26. ODA from the member countries of the Organisation for Economic Co-operation and Development Development Assistance Committee (DAC) reached $105 billion in 2005 to all regions of the world. The largest bilateral DAC donors continue to be the United States of America, Japan, the United Kingdom of Great Britain and Northern Ireland, France and Germany, respectively. In the ESCWA region, the top donors are similar, although intra-Arab ODA is on the increase, which can be partly attributed to the surplus capital in the oil-exporting countries from the high world oil prices. Consequently, the bulk of ODA flows to the ESCWA region is set to continue to follow the policy lines of the DAC donor countries in the medium term.

27. For example, ODA to Iraq is expected to continue to attract the majority share of ODA to the ESCWA region in the near future. Iraq was awarded $14 billion in debt forgiveness by the DAC member countries in 2005 and additional debt forgiveness over the coming three years from the Paris Club of donors. Ongoing financial support for that war-torn country will necessarily reduce funds available for development finance in other ESCWA member countries. Moreover, debt relief for Lebanon, which is recovering from the devastating war of 2006, is expected to absorb another segment of regional ODA in the form of debt forgiveness to assist the massive reconstruction efforts of that country. As the Middle East faces the possibility of three regional conflicts at the same time, the ability of international ODA to meet so many challenges is uncertain.

D. ADDRESSING SYSTEMIC ISSUES

28. The Monterrey Consensus recognizes the need to improve global economic governance, especially in the light of financial crises that have the potential to impact negatively the global economy. In order to ensure coherent and consistent monetary, financial and trading systems, the leading industrial countries reconfirmed their commitment to improve the coordination of macroeconomic policies aimed at providing global stability and reducing exchange rate volatility. Developing countries recognize the need to enhance coordination among their domestic ministries and institutions and to undertake greater participation in the reform of the international financial architecture. Coordination of the United Nations system and other multilateral financial, trade and development institutions is tasked with lending support to member countries in promoting economic growth, poverty reduction and development.

29. Within the ESCWA region, the six countries of the GCC have tackled many hurdles in order to harmonize customs regulations and trade policies to form their customs union. This included the adoption of a common external tariff of 5 per cent and the elimination of tariffs on intra-GCC trade. In preparation for

deeper economic integration necessary and the establishment of a GCC monetary union, the countries of that subregion have agreed on five economic convergence criteria, namely, inflation, interest rates, foreign reserves, budget deficits, and debt to GDP ratios. The convergence criteria are to be achieved by each of the six countries by 2007, albeit with a possibility to extend this deadline. Efforts are ongoing to standardize regulations and coordinate fiscal and monetary policies across this subregion in order to implement this monetary union and to adopt a common GCC currency by 2010. Moreover, Yemen has begun negotiations aimed at joining; and preliminary discussions between the six countries are exploring the option of adopting a value-added tax system for the GCC region.

III. ESCWA ACTIVITIES TO PROMOTE AWARENESS AND SUPPORT THE IMPLEMENTATION OF THE MONTERREY CONSENSUS

30. ESCWA continues to play a number of roles in following up on the implementation of the Monterrey Consensus. Specifically, since the International Conference in 2002, the work of ESCWA has aimed at the following:

(a) Creating awareness among ESCWA member countries of the six leading actions of the Monterrey Consensus in order to promote development finance in the ESCWA and Arab regions;

(b) Providing training for Government officials from the region in order to improve their technical capabilities on topics related to development finance, including debt management and FDI inflows;

(c) Serving as an information link between ESCWA member countries, intergovernmental agencies and the Financing for Development Office at United Nations Headquarters;

(d) Organizing expert group meetings to open a dialogue among regional experts on ways to facilitate growth of development finance in order to meet the MDGs by 2015;

(e) Providing a forum for ESCWA member countries through this session of the Technical Committee.

31. Member countries have introduced several policies and measures aimed at implementing the Monterrey Consensus, particularly in the areas of FDI, debt management and trade liberalization. Several countries have adopted new laws and regulations governing FDI, and several debt-burdened ESCWA member countries have negotiated debt forgiveness and debt relief packages. For example, Yemen, which is the only least developed country in the ESCWA region, was able to receive debt forgiveness from the Paris Club and from other countries; and the Syrian Arab Republic and Lebanon were successful in negotiating debt relief packages from, respectively, Russia and the Paris III Conference.

32. As a regional commission, ESCWA is tasked by the General Assembly to monitor progress made by member countries in meeting their commitments under the Monterrey Consensus. In that regard, ESCWA has produced three recurrent publications covering the six-leading actions of the Consensus, namely:

(a) "Perspective from the Economic and Social Commission for Western Asia on Financing for Development";[14]

(b) "Report on the follow-up on the implementation of the International Conference on Financing for Development in the ESCWA region" (E/ESCWA/GRID/2003/38), which introduces the six leading actions of the Monterrey Consensus, provides an overview of the development finance situation in the ESCWA

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[14] A total of six studies were issued under that title, namely: "Regional study on financing for development" (E/ESCWA/OES/2002/5 and E/ESCWA/ED/2002/4); "External debts and financial flows of ESCWA countries" (E/ESCWA/OES/2002/4 and E/ESCWA/ED/2002/3); "Foreign direct investment flows in the ESCWA region" (E/ESCWA/OES/2002/3 and E/ESCWA/ED/2002/2); "Trade issues of the ESCWA region" (E/ESCWA/OES/2002/2 and E/ESCWA/ED/2002/1); "Microfinance in the ESCWA region and proposed development strategy" (E/ESCWA/OES/2002/7 and E/ESCWA/ED/2002/6); and "The financial sector in the ESCWA region: The current status for strengthening and development" (E/ESCWA/OES/2002/6 and E/ESCWA/ED/2002/5).

member countries, and further addresses the challenges facing ESCWA member countries in facilitating development finance. This report includes a chapter on MDGs and their link to the International Conference on Financing for Development;

(c) "Progress made by ESCWA member countries in the implementation of the Monterrey Consensus" (E/ESCWA/GRID/2005/5), which highlights the gains made by ESCWA member countries in promoting development finance and the remaining challenges, including two focus chapters on mobilizing domestic financial resources and trade as an engine for growth in the ESCWA region.

33. Moreover, ESCWA has undertaken several activities aimed at assisting member countries to implement their commitments under the Monterrey Consensus. Within that context, three technical studies were produced that were deemed of special interest to the region, namely: (a) "Policies aimed at attracting foreign direct and intraregional investment in the ESCWA region: improving the climate for foreign direct investment and mobilizing domestic savings – Case studies of Bahrain, Jordan and Yemen" (E/ESCWA/GRID/2003/28); (b) "Responding to globalization: stock market networking for regional integration in the ESCWA region" (E/ESCWA/GRID/2003/37); and (c) "External debt management and the debt situation in the ESCWA region: Case studies of Jordan and Lebanon" (E/ESCWA/GRID/2004/5).

34. Additionally, ESCWA organized in coordination with other United Nations agencies several capacity-building workshops for officials from ESCWA member countries, namely: (a) a training course on the International Economic Agenda (Beirut, 16-27 June 2003); (b) national workshops on FDI data compilation in Bahrain, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, Syrian Arab Republic and United Arab Emirates (2003-2005); (c) Workshop on Debt Analysis and Management in ESCWA Member States (Beirut, 20-24 September 2004); and (d) Key Issues on the International Economic Agenda (Beirut, 26 June - 14 July 2006).

35. Furthermore, ESCWA continues to promote awareness of ESCWA member countries by organizing various expert group meetings. Specifically, the first Expert Group Meeting on the Regional Dimension of the Monterrey Consensus: Financing for Development (Beirut, 6-8 June 2005), which was co-sponsored by the Organization of the Islamic Conference (OIC) and the Department of Economic and Social Affairs (DESA), introduced that topic to the ESCWA region and sought to promote an intraregional dialogue on the Monterrey Consensus. ESCWA brought together regional and international stakeholders in order to follow up on and discuss further actions for the implementation of the Monterrey Consensus, and to mobilize development finance in the ESCWA region. Regional experts and Government officials joined together in roundtable discussions; and their insights and recommendations were disseminated in the report of that Meeting.

36. Other expert group meetings were organized on particular topics related to financing for development, including the Expert Group Meeting on the Role of Capital Markets in the Economic Development of the ESCWA Member Countries (Abu Dhabi, 19-20 September 2006).

37. In 2007, ESCWA is set to begin preparing ESCWA member countries for their participation in the second International Conference on Financing for Development, to be held in Doha in 2008. Preparations for that Conference will require ESCWA to issue briefing documents and to organize a regional expert group meeting aimed at discussing issues related to financing for development that are of particular interest to the ESCWA region and that need to be addressed in a coherent manner at that International Conference.

38. During the programme of work for 2008-2009, ESCWA will continue to monitor closely the implementation of the Monterrey Consensus by its member countries with special focus on such important issues as FDI inflows, debt management and trade as an engine for growth. Moreover, technical assistance will also be provided to member countries in the areas of FDI outflows and negotiation of bilateral investment agreements. These activities aim to assist member countries in their efforts to mobilize adequate domestic and external resources for development finance, which represents the principal objective of the Monterrey Consensus.

39. ESCWA will follow up on the implementation of the Monterrey Consensus and encourage member countries to achieve the following:

(a) Implement the Monterrey Consensus as a package of measures integrated into their macroeconomic policies;

(b) Establish focal points to follow up on the implementation of the Monterrey Consensus;

(c) Be active participants of the preparatory meeting that will be organized by ESCWA in the first quarter of 2008, as a preparation leading to the second International Conference on Financing for Development that will be held in Doha in the second half of 2008;

(d) Encourage private sector companies, particularly family-owned enterprises, to make better use of equity financing;

(e) Draft new laws and regulations that promote an environment that is conducive to investors;

(f) Coordinate WTO negotiation positions with other developing countries;

(g) Adopt trade policies and negotiate trade agreements that are pro-development;

(h) Eliminate non-tariff barriers that reduce the gains from trade liberalization, especially regional integration;

(i) Improve the efficiency of ODA by funding productive projects and by coordinating development efforts between ministries;

(j) Adopt coherent macroeconomic policies that support development goals.