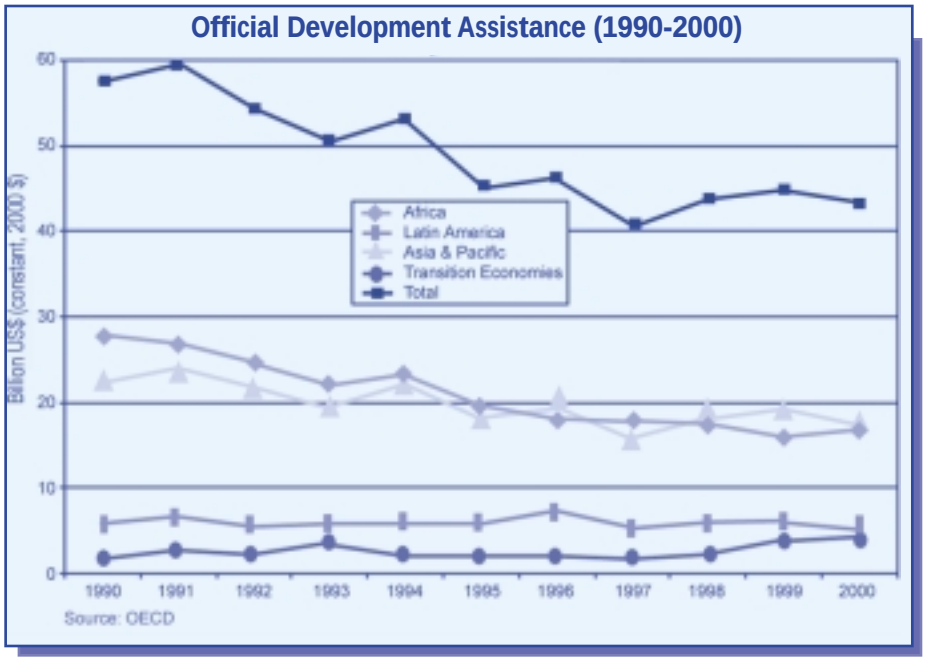
FACTS ABOUT...

Finance and Trade

Steady decline in Official Development Assistance (ODA)

Over the last decade, the quality and quantity of financial flows from developed to developing countries have changed significantly. Between 1990 and 2000 ODA fell steadily from 0.33% of donor country GNP to 0.22 %. This decline is inconsistent with the commitment to achieve the agreed target of 0.7% of GNP of developed countries to be transferred as ODA. This decline has serious consequences for the least developed countries (LDCs), who remain highly dependent on ODA, which constitutes on average almost 90% of their total long-term capital inflows.

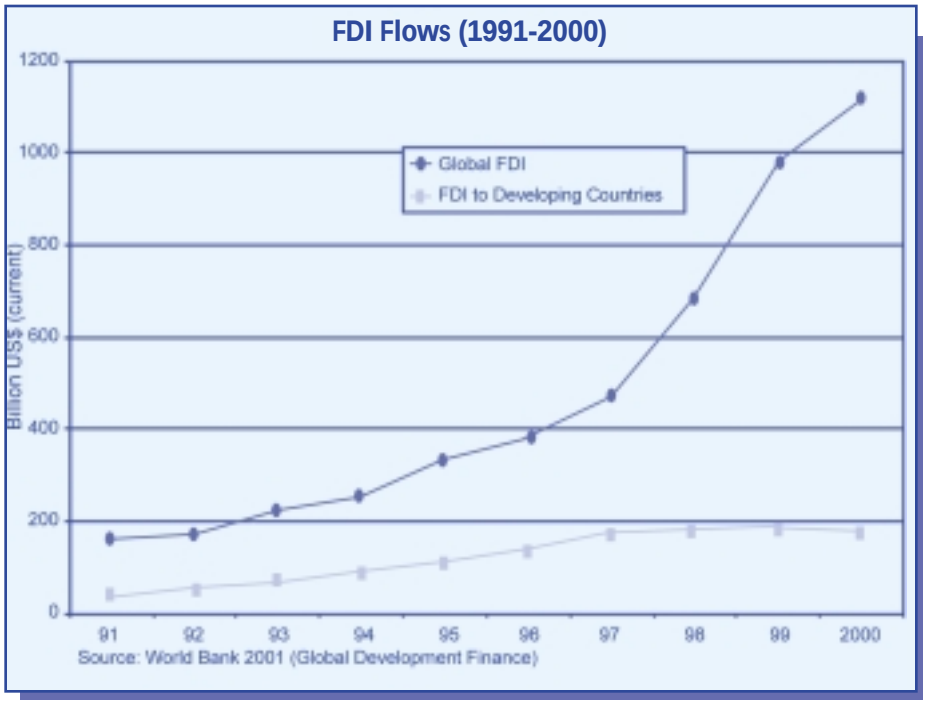


There were notable changes in the sectoral allocation of ODA, in particular to critical areas of sustainable development. The shares of ODA allocated to freshwater management, social services such as health and education, and environmental protection roughly doubled during the 1990s.

In March of 2002, the EU and US pledged at the International Conference on Financing for Development held in Monterrey to significantly increase their development assistance over the next three years. While this was an important step to reverse the continuing decline, it still falls far short of meeting the agreed target.

Foreign Direct Investment

During the same time period, private financial flows have significantly increased. In absolute terms, FDI to developing countries increased from US$36 billion in 1991 to US$185 billion in 1999, but declined to US$178 billion in 2000. However, this remains only a small portion of the global FDI flows, which amounted to US$1.1 trillion in 2000. While FDI is considered an important form of external finance, it remains highly concentrated. In 2000, 80% of FDI to the developing world went to only 10 countries, and LDCs attracted only 2.5% of all FDI to developing countries.



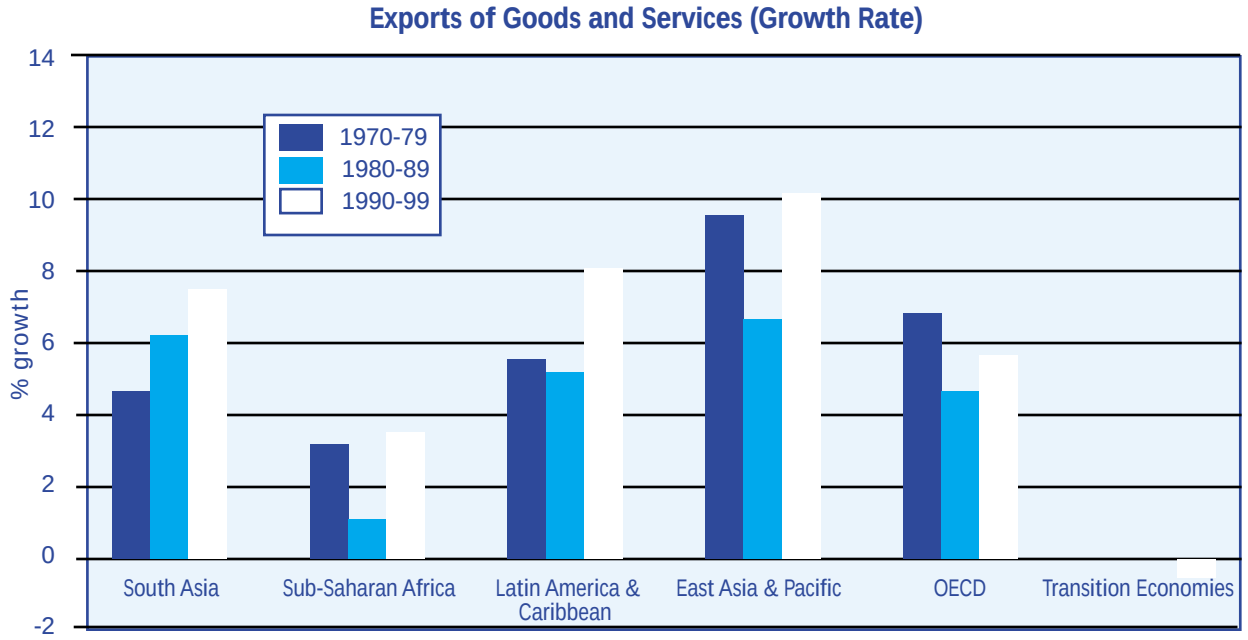
External Debt

The total debt stock of net-debtors developing countries increased over the last decade from US$ 1.3 trillion in 1991 to US$ 2.2 trillion in 2000. The ratio of debt service payments to export earnings increased from 19.6% in 1991 to 22.3% in 1999. The external debt burden continues to divert resources from sustainable development, particularly budget allocations for the social sector.

The enhanced Heavily Indebted Poor Countries (HIPC) Initiative is expected to improve the debt burden of participating countries over the next few years. Twenty-six countries have reached their decision point under the initiative by July 2002 and will receive debt service relief, which will, according to the IMF and World Bank, reduce the net present value of their outstanding debt stock of US$ 62 billion by US$ 25 billion.

Global Trade

World trade in goods and services has doubled over the last decade. Although developed countries remain the main world traders, the share of developing countries in global trade has steadily increased to about 30% of total world trade in 2000. However, the share of this increase in trade is very unevenly distributed among various regions. The increased share of developing countries is carried mainly by rapid industrialization in some countries, mainly in East Asia. Africa's annual percentage growth rate for exports was 3.8%, lagging well behind the world average growth rate of 6%.



Source: World Bank 2001 (World Development Indicators)

In addition, the extreme price movements in commodity markets and the sharp decline in commodity prices in 1998 and 1999 have constituted a major challenge for developing countries in general and the LDCs in particular.

The Fourth Ministerial Meeting of the World Trade Organization, held in November 2001 in Doha, agreed to place development at the centre of future trade negotiations. It is expected that the fulfilment of the Doha mandate will contribute to the achievement of sustainable development.

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