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Beirut, 6-8 June 2005

THE MONTERREY CONSENSUS: STATUS OF IMPLEMENTATION AND TASKS AHEAD

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Economic and Social Commission for Western Asia (Escwa)
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Financing for Development Office

The international Conference on Financing for Development, which took place in Monterrey, Mexico, in March of 2002, "was a turning point in the quest for economic and social progress", in the words of the Secretary General of the UN, because the consensus reached there "reflects a landmark global agreement between developed and developing countries, in which both recognize their responsibilities in key areas such as trade, aid, debt relief and institution building. It produced a breakthrough on the question of Official Development Assistance, with substantial new pledges and a major change in attitude. Also, the conference saw an unprecedented cooperation between the United Nations, the World Bank, The International Monetary Fund and the World Trade Organization, as part of the efforts to promote greater coherence and consistency among the international monetary, trade and financial systems and institutions.

In short, Monterrey achieved real breakthroughs:

- Official development assistance: new commitments made in Monterrey reversed a troubling and devastating decade of decline or stagnation.
- The process broke new ground in bringing together, under the umbrella of the United Nations, all relevant stakeholders – not least, different ministries within the same government – to improve policy coherence.
- Monterrey cemented a view of poor people and poor countries as partners in the development process – as untapped reservoirs of initiative, not objects of pity.
- and perhaps most important of all, the way both developed and developing countries acknowledged their mutual responsibilities and mutual accountability, a welcome departure from the polarizing practice of pointing at what others were not doing.

Since then, the challenge has been its implementation.

The Monterrey Consensus represents a compact among States Members of the United Nations on actions to address the challenges of financing development around the world, especially in developing countries, and forms the core of any holistic development financing strategy.

Also, it provides a broad based partnership for development in support of the objectives set forth in the Millennium Declaration. The Secretary General's report "In Larger Freedom" notes that the specific Millennium Development Goals are, in turn, part of a "larger development agenda" that also encompasses the needs of the middle-income developing countries, the impact of growing inequality, and the wider dimensions of human development.

Six areas of action were set out in the Monterrey Consensus. These include mobilizing domestic and international resources, international trade, financial and technical cooperation, external debt and systemic issues in the region's monetary, financial and trading systems.

The Consensus uses these topics to identify the policy actions that need to be taken by stakeholders, namely the Governments of developing and developed countries and international organizations, to mobilize financial resources for development and to use them more efficiently.

Since the September Meeting of the 59th session of the General Assembly, an ongoing process of consultations, research, expert group meetings and reports on Financing for Development have taken place, in addition to the Secretary General Report: "In larger freedom: towards development, security and human rights for all"

- **ECOSOC**

  The Economic and Social Council held its special high-level meeting with the Bretton Woods institutions, WTO and UNCTAD on 18 April 2005 at UN Headquarters. The overall theme of the meeting was "Coherence, coordination and cooperation in the context of the implementation of the Monterrey Consensus: Achieving the internationally agreed development goals, including those contained in the Millennium Declaration." It convened an unprecedented number of high-level officials representing a wide variety of stakeholders.

  There was a broad view that it was critical to continue to build momentum towards the September 2006 September High Level Plenary Meeting. This Summit will provide a unique opportunity to agree on the actions necessary to make possible the achievement of the Millennium Development Goals and to implement without delay the commitments agreed upon in the Monterrey Consensus; it could also provide the impetus for a successful outcome of the WTO Ministerial Conference in December 2005. Many participants stressed the need for urgent action now since there was agreement on the international development goals and, a consensus had emerged at Monterrey, regarding main national and international policy orientations and concrete actions.

- **Financing for Development Office**

  The Financing for Development Office organized three sets of multi-stakeholder consultations, including experts from the official and private sectors, as well as academia and civil society, to examine issues related to the mobilization of resources for financing development and poverty eradication.

  - Dialogues managed by the World Economic Forum (WEF)
    - Public - private partnerships for improving the effectiveness of development assistance
    - Improving the climate for private investment

- Dialogues managed by FFDO
    - Building an inclusive financial sector for development
    - Sovereign debt for sustained development
- Dialogues managed by New Rules for Global Finance Coalition on Systemic Issues.
    - The purpose of these consultations was to identify reforms that will promote financing for development, systemic stability, poverty reduction and income equality. Some of the overriding problems addressed were capital drought, boom-bust cycles of international capital flows, continued debt accumulation and exposure to foreign exchange, interest rate and commodity price risk.

- **Department of Economic and Social Affairs**
    - The Department of Economic and Social Affairs is dedicating its annual report: The World Economic and Social Survey 2005, to the Financing for Development theme, structuring it in accordance to the six chapters of the Monterrey Consensus.

Many of the ideas discussed in these meetings, in the research done by DESA and in the Secretary General's report "In larger freedom: towards development, security and human rights for all", are included in the summary that follows of the Secretary General's report for the High Level Plenary Dialogue which will held at the end of this month in New York.

A. Mobilizing domestic financial resources for development

The Monterrey Consensus reaffirms the primary responsibility of developing countries to mobilize their domestic resources via strengthening governance, combating corruption, redirecting government revenues, increasing domestic savings and supporting entrepreneurship and private-sector investment.

To facilitate domestic mobilization of resources, each country must elaborate its own national development strategy that responds to its specific needs, circumstances and priorities. The Secretary-General's report "In Larger Freedom" calls for every developing country with extreme poverty to adopt and begin to implement, no later than 2006, a national development strategy bold enough to meet the Millennium Development Goals by 2015. 10-year horizons and a comprehensive assessment of each country's unique requirements in the areas of human capital formation, infrastructure, environmental management, and private sector development

The effective mobilization of financial resources to support investment requires development of domestic financial sectors and institutions.

At mid-decade, most developing countries and countries with economies in transition have made significant progress in improving resource mobilization. As these efforts continue, it is important to assure developing countries adopting sound national development strategies requiring additional financial support that they will be able to count on a sufficient increase in aid, of sufficient quality, arriving with sufficient speed and sufficient predictability. However, countries where progress towards improving policy frameworks and enhancing institutions are lagging cannot be overlooked and special efforts will be required to reinforce their efforts and to ensure financing.

B. Mobilizing international resources for development: foreign direct investment and other private flows

Private capital flows play an increasingly important role in supplementing developing countries' domestic resources. Currently direct investment provides the largest source of private flows, but concentration in the best performing emerging market countries limits overall effectiveness. Increased efforts are required to direct FDI to low-income countries and ensure its contribution to development. Mechanisms to better manage and mitigate investment risk are required. In addition to finance, FDI can support domestic enterprise through technology transfer and providing market access.

The increasing magnitude of private flows to developing countries has been accompanied by increased volatility. The pro-cyclical boom-bust cycles of private capital inflows and outflows underscore the need for developing market institutions and instruments that encourage more stable capital flows.

Borrowing in domestic currency avoids the risks associated with currency mismatches and pro-cyclical foreign capital flows. However, since the dynamics of domestic currency bond markets are linked to external bond markets, they are not immune from external volatility. Another possibility is the development of foreign investment funds investing in a diversified portfolio of domestic-currency denominated debt of developing countries, which provide, through diversification, risk-adjusted rates of return that are attractive to foreign investors. Capital account regulations can provide space for more active counter-cyclical policies to smooth spending, as well as improving external debt profiles of developing countries. When adopted in appropriate circumstances, capital account regulations may facilitate the operation of sensible counter-cyclical macroeconomic policies; however they do not provide a substitute for them.

Remittance flows have become an increasing source of foreign exchange for many developing countries and a potential source of development finance. While most remittances are savings from migrants' earnings that provide financial support for families in home countries, recent initiatives seek to leverage the impact of remittances on development. High transaction costs reduce the funds received by recipient families, and deter the use of formal channels for remittances, keeping these funds outside the formal financial system.

C. International trade as an engine for development

The Monterrey Consensus emphasized the links between trade, development and finance, and the critical role in this regard of a more open, equitable, rule-based, predictable and non-discriminatory multilateral trading system. For the LDCs, LLDCs and small, vulnerable States, particularly in Africa, a development-oriented global trading system is even more important. To address this priority, the Secretary-General has urged that the Doha round of multilateral trade negotiations should fulfill its development promise and be completed no later than 2006 to provide support for the Millennium Development Goals. An agreement on an "end-game document" for the Sixth WTO Ministerial Conference in December 2005 would help ensure that negotiations can be completed in 2006. This requires reaching agreement on the rapid elimination of export and trade-distorting domestic subsidies in agriculture, as well as substantial advance in reducing tariff peaks and escalation in manufactures of interest to developing countries. Also concrete steps are required to deal with market entry barriers such as product standards and regulations, sanitary and phytosanitary measures.

D. Increasing international financial and technical cooperation for development

Official assistance continues to play a crucial role in supplementing the resources of developing countries, particularly the poorest. From a peak of over 0.5 per cent of developed country GNI in the 1960s, ODA declined until it reached an historical low of 0.21 per cent as Heads of State and Government were approving the Millennium Declaration. To counter this trend, developed countries reaffirmed at Monterrey the 0.7 per cent target and many announced increased contributions or pledged to meet fixed dates for reaching the target. These commitments reversed the decline and the share of ODA in developed country GNI rose to 0.25 per cent in 2003 and 2004. However, the current and projected levels of ODA still fall far short of the estimates of what will be required to attain the Millennium Development Goals by 2015. Furthermore, when corrected for price and exchange rate changes, the recent recovery of aid has barely brought assistance in relation to GNI back to the levels of 1990.

In order to provide the required resources, the Secretary-General has requested all developed countries to establish fixed timetables to achieve the 0.7 per cent target by 2015 at the latest, with an intermediate target of roughly doubling aid to 0.5 per cent for 2009. Currently only Denmark, Luxembourg, the Netherlands, Norway and Sweden meet or exceed the 0.7 per cent target. EU Member States have recently set a target date of 2015 for reaching the 0.7 per cent goal, with an intermediate target of 0.51 per cent by 2010. Members joining the EU after 2002 have committed to strive for a target of 0.33 per cent by 2015, with an intermediate target of 0.17 per cent by 2010. Not only does ODA have to increase substantially, it is essential to direct more aid to the least developed countries (LDCs).

The Secretary-General has called on the international community to launch an International Finance Facility (IFF) in 2005, first proposed by the U.K. Since the IFF builds on commitments to reach the 0.7 per cent ODA target no later than 2015, it is a complement to traditional commitments. Its unique feature is to frontload aid flows, through issue of bonds guaranteed by participating governments that will allow aid commitments to be spent before they are budgeted.

A number of countries have followed up on the call in the Monterrey Consensus to investigate innovative financing mechanisms to guarantee more and greater predictability of development financing. The proposals discussed include: "nationally applied and internationally coordinated" levies; the allocation of SDRs for development purposes; encouraging private global solidarity; an international lottery; and facilitating remittances. The "Group of Six" countries referred to above concluded that "solidarity levies" would be a good instrument to generate additional and predictable resources. It would also complement the IFF. They are also convinced that universal participation would be preferred, but not required, for many of these initiatives.

Donors have been increasingly concerned with the effectiveness of their aid. The Rome High Level Forum on Joint Progress Toward Enhanced Aid Effectiveness in 2003 called for action plans to harmonize donor policies, procedures and practices with their developing country partners.

In addition to official government assistance, developing countries receive assistance from Multilateral and Regional Development Banks. In addition to direct lending, they provide multiple financial and other services. A more active role could be taken by these institutions in promoting innovations in development financing.

The increase in, and predictability of, official development assistance must also extend to the funding of multilateral programs, including in particular those which form part of the UN system.

E. External debt

While progress has been made in reducing unsustainable debt burdens for many developing countries, much remains to be done. The Heavily Indebted Poor Countries (HIPIC) Initiative, launched in 1996 and enhanced in 1999, has recently been extended by two years to allow those countries eligible to fulfill the criteria to benefit from debt relief under the Initiative. A number of proposals are currently under discussion for additional reduction in debt stocks or in debt service for HIPC and non-HIPC IDA only countries.

The Secretary-General has proposed that debt sustainability be redefined as the level of debt that allows a country to achieve the Millennium Development Goals by 2015 without an increase in its debt ratios. For most HIPC countries, this will require exclusively 100 per cent debt cancellation and 100 per cent grant-based finance. For many heavily indebted non-HIPC and middle-income countries, debt sustainability will require significantly more debt reduction than has yet been proposed.

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

In addition to increased financial support, the Monterrey Consensus notes the importance of an appropriate international environment to support developing countries' efforts to implement reforms to mobilize domestic resources. Currently the global economy is characterized by large and increasing imbalances across regions. It is necessary that major countries recognize the impact of their macroeconomic policies on all participants in the international economy and promote international cooperation to ensure an orderly winding down of existing global imbalances. The IMF should play the central role in ensuring consistency and coherence of the domestic economic policy of major economies.

Assessing national policies highlights the importance of appropriate counter-cyclical macroeconomic management as central criteria of international policy coherence. Given the recurrent shocks that developing countries face and their limited room for maneuver to adopt counter-cyclical macroeconomic policies, surveillance and financial support by the IMF and the multilateral development banks can help facilitate appropriate implementation of such policies, including appropriate facilities for liquidity provision to cover volatility in export earnings, in particular those caused by fluctuations in commodity prices, capital flow volatility, and natural disasters.

The Monterrey Consensus calls for a search for pragmatic and innovative ways to further enhance the participation of developing countries and countries with economies in transition in all international economic decision-making and norm-setting institutions. Discussions on ways to improve voice and participation of developing countries in the Bretton Woods institutions have already started, and it is important that the political will be present to take and implement decisions in this regard.

The importance of improving governance mechanisms, enhancing coherence and consistency of the international monetary, financial and trading systems has been stressed by the Monterrey Consensus. The WTO Ministerial Declaration in Doha has reiterated the importance of ensuring coherence of international trade and financial policies, in order to enhance the capacity of the multilateral trading system to contribute to a durable solution to the problem of external indebtedness of developing and least developed countries and to safeguard the multilateral trading system from the effects of financial and monetary instability. There is a continuing need to improve the systemic coherence between trade, debt and finance.

Tasks Ahead

To continue with the process of consultations, research, expert group meetings and reports on Financing for Development, and specifically to prepare for the following:

- The General Assembly will hold the High-level Dialogue on Financing for Development on 27 and 28 June 2005 in New York immediately prior to the high-level segment of the 2005 substantive session of the Economic and Social Council in order for the recommendations of the High-level Dialogue to be considered in the preparatory process for the High-level Plenary Meeting to be held in New York from 14-16 September. It also decided to hold a separate meeting on Financing for Development within the framework of the High-level Plenary Meeting.

- The General Assembly further decided to hold a separate meeting on Financing for Development immediately following the adjournment of the opening plenary session of the High-level Plenary Meeting of the 60th session of the General Assembly. Statements will be made by the head of the delegation of the host country of the International Conference on Financing for Development, major institutional stakeholders, individual delegations, in particular delegations that are proposing key initiatives in the Financing for Development process, one representative from civil society and one representative from the private sector, in consultation with the President of the General Assembly.