Michigan Journal of International Law

Volume 26 | Issue 1

2004

Financing for Development, the Monterrey Consensus: Achievements and Prospects

Abdel Hamid Bouab
United Nations

COMMENT

FINANCING FOR DEVELOPMENT, THE MONTERREY CONSENSUS: ACHIEVEMENTS AND PROSPECTS

*Abdel Hamid Bouab**

I. INTRODUCTION

The International Conference on Financing for Development, held in Monterrey, Mexico, in March 2002, marked the beginning of a new international approach to dealing with issues of development finance. It resulted from a unique process that broke new ground in bringing together all relevant stakeholders in a manner that was unprecedented in inclusiveness. Under the umbrella of the United Nations, all parties involved in the financing for development process contributed to creating a policy framework, the Monterrey Consensus of the International Conference on Financing for Development, to guide their respective future efforts to deal with issues of financing development at the national, regional, international, and systemic levels. This paper presents a summary of the major recommendations of the Monterrey Conference.

* Chief of Public Finance and Private Sector Development for the United Nations.

II. Mobilizing Domestic Financial Resources for Development

In our common pursuit of growth, poverty eradication, and sustainable development, a critical challenge is: to ensure the necessary internal conditions for mobilizing domestic savings, both public and private; sustaining adequate levels of productive investment; and increasing human capacity. A crucial task is to enhance the efficacy, coherence, and consistency of macroeconomic policies. An enabling domestic environment is vital for mobilizing domestic resources, increasing productivity, reducing capital flight, encouraging the private sector, and attracting and making effective use of international investment and assistance. Efforts to create such an environment should be supported by the international community.

Good governance is essential for sustainable development. Sound economic policies, solid democratic institutions responsive to the needs of the people, and improved infrastructure are the basis for sustained economic growth, poverty eradication, and employment creation. Freedom; peace and security; domestic stability; respect for human rights, including the right to development and the rule of law; gender equality; market-oriented policies; and an overall commitment to just and democratic societies are also essential and mutually reinforcing.

Fighting corruption at all levels is a priority. Corruption is a serious barrier to effective resource mobilization and allocation and diverts resources away from activities that are vital for poverty eradication and economic and sustainable development.

An effective, efficient, transparent, and accountable system for mobilizing public resources and managing their use by Governments is essential. We recognize the need to secure fiscal sustainability, along with equitable and efficient tax systems and administration, as well as improvements in public spending that do not crowd out productive private investment. We also recognize the contribution that medium-term fiscal frameworks can make in that respect.

Investments in basic economic and social infrastructure, social services and social protection, including education, health, nutrition, shelter, and social security programs, that take special care of children and older persons and are gender sensitive and fully inclusive of the rural sector and all disadvantaged communities are vital for enabling people, especially people living in poverty, to better adapt to and benefit from changing economic conditions and opportunities. Active labor market policies, including worker training, can help to increase employment and improve working conditions. The coverage and scope of social protection needs to be further strengthened. Economic crises also underscore the importance of effective social safety nets.

There is a need to strengthen and develop the domestic financial sector, by encouraging the orderly development of capital markets through sound banking systems and other institutional arrangements aimed at addressing development financing needs, including the insurance sector and debt and equity markets, that encourage and channel savings and foster productive investments. This requires a sound system of financial intermediation, transparent regulatory frameworks, and effective supervisory mechanisms, supported by a solid central bank. Guarantee schemes and business development services should be developed for easing the access of small and medium-sized enterprises to local financing.

Microfinance and credit for small and medium-sized enterprises, including in rural areas, particularly for women, as well as national savings schemes, are important for enhancing the social and economic impact of the financial sector. Development banks and commercial and other financial institutions, whether independently or in cooperation, can be effective instruments for facilitating access to finance, including equity financing, for such enterprises, as well as an adequate supply of medium-term and long-term credit.

It is critical to reinforce national efforts in capacity-building in developing countries and countries with economies in transition in such areas as institutional infrastructure, human resource development, public finance, mortgage finance, financial regulation and supervision, basic education in particular, public administration, social and gender budget policies, early warning and crisis prevention, and debt management. In that regard, particular attention is required to address the special needs of Africa, the least developed countries, small island developing states, and landlocked developing countries.

III. Mobilizing International Resources for Development: Foreign Direct Investment and Other Private Flows

To attract and enhance inflows of productive capital, countries need to continue their efforts to achieve a transparent, stable, and predictable investment climate, with proper contract enforcement and respect for property rights, embedded in sound macroeconomic policies and institutions that allow businesses, both domestic and international, to operate efficiently and profitably and with maximum development impact. Special efforts are required in such priority areas as economic policy and regulatory frameworks for promoting and protecting investments, including the areas of human resource development, avoidance of double taxation, corporate governance, accounting standards, and the promotion of a competitive environment. Other mechanisms, such as public/private partnerships and investment agreements can be important. We emphasize the need for strengthened, adequately resourced technical assistance and productive capacity-building programs, as requested by recipients.

To complement national efforts, there is the need for the relevant international and regional institutions as well as appropriate institutions in source countries to increase their support for private foreign investment in infrastructure development and other priority areas, including projects to bridge the digital divide in developing countries and countries with economies in transition. To this end, it is important to provide: export credits; co-financing; venture capital and other lending instruments; risk guarantees; leveraging aid resources; information on investment opportunities; business development services; and forums to facilitate business contacts and cooperation between enterprises of developed and developing countries, as well as funding for feasibility studies. Inter-enterprise partnership is a powerful means for transfer and dissemination of technology. In this regard, strengthening of the multilateral and regional financial and development institutions is desirable. Additional source country measures should also be devised to encourage and facilitate investment flows to developing countries.

IV. International Trade as an Engine for Development

The following issues are of particular concern to developing countries and countries with economies in transition: international trade to enhance their capacity to finance their development, including trade barriers; trade-distorting subsidies and other trade-distorting measures, particularly in sectors of special export interest to developing countries such as agriculture; the abuse of anti-dumping measures; technical barriers and sanitary and phytosanitary measures; trade liberalization in labor intensive manufactures; trade liberalization in agricultural products; trade in services; tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers; the movement of natural persons; the lack of recognition of intellectual property rights for the protection of traditional knowledge and folklore; the transfer of knowledge and technology; the implementation and interpretation of the Agreement on Trade-Related Aspects of Intellectual Property Rights in a manner supportive of public health; and the need for special and differential treatment provisions for developing countries in trade agreements to be made more precise, effective, and operational.

Multilateral assistance is also needed to mitigate the consequences of depressed export revenues of countries that still depend heavily on commodity exports. In this connection, the recent review of the International Monetary Fund Compensatory Financing Facility will continue to assess its effectiveness. Further cooperation is also necessary between bilateral donors and multilateral aid agencies to strengthen their support to export diversification programs in those countries.

In support of the process launched in Doha, immediate attention should go to strengthening and ensuring the meaningful and full participation of developing countries, especially the least developed countries, in multilateral trade negotiations. In particular, developing countries need assistance in order to participate effectively in the World Trade Organization work program and negotiating process through the enhanced cooperation of all relevant stakeholders, including the United Nations Conference on Trade and Development, the World Trade Organization, and the World Bank. To those ends, we underscore the importance of effective, secure, and predictable financing of trade-related technical assistance and capacity-building.

V. Increasing International Financial and Technical Cooperation for Development

Effective partnerships among donors and recipients are based on the recognition of national leadership and ownership of development plans and, within that framework, sound policies and good governance at all levels are necessary to ensure official development assistance (ODA) effectiveness. A major priority is to build those development partnerships, particularly in support of the neediest countries and to maximize the poverty reduction impact of ODA. The goals, targets, and commitments of the Millennium Declaration and other internationally agreed development targets can help countries to set short- and medium-term national priorities as the foundation for building partnerships for external support.

Recipient and donor countries, as well as international institutions, should strive to make ODA more effective. In particular, there is a need for multilateral and bilateral financial and development institutions to intensify efforts to:

- Harmonize their operational procedures at the highest standard so as to reduce transaction costs and make ODA disbursement and delivery more flexible, taking into account national development needs and objectives under the ownership of the recipient country;

- Support and enhance recent efforts and initiatives, such as untying aid, including the implementation of the Organisation for Economic Cooperation and Development/Development Assistance Committee recommendation;
- Enhance the absorptive capacity and financial management of the recipient countries to utilize aid in order to promote the use of the most suitable aid delivery instruments that are responsive to the needs of developing countries and to the need for resource predictability, including budget support mechanisms, where appropriate, and in a fully consultative manner;
- Use development frameworks that are owned and driven by developing countries and that embody poverty reduction strategies, including poverty reduction strategy papers, as vehicles for aid delivery, upon request;
- Enhance recipient countries' input into and ownership of the design, including procurement, of technical assistance programs and increase the effective use of local technical assistance resources;
- Promote the use of ODA to leverage additional financing for development, such as foreign investment, trade, and domestic resources;
- Strengthen triangular cooperation, including countries with economies in transition, and South-South cooperation as delivery tools for assistance;
- Improve ODA targeting to the poor, coordination of aid, and measurement of results.

VI. External Debt

Sustainable debt financing is an important element for mobilizing resources for public and private investment. National comprehensive strategies to monitor and manage external liabilities, embedded in the domestic preconditions for debt sustainability, including sound macroeconomic policies and public resource management, are a key element in reducing national vulnerabilities. Debtors and creditors must share the responsibility for preventing and resolving unsustainable debt situations.

Technical assistance for external debt management and debt tracking can play an important role and should be strengthened.

External debt relief can play a key role in liberating resources that can then be directed towards activities consistent with attaining sustainable growth and development, and therefore, debt relief measures should, where appropriate, be pursued vigorously and expeditiously, including within the Paris and London Clubs and other relevant forums. Noting the importance of re-establishing financial viability for those developing countries facing unsustainable debt burdens, we welcome initiatives that have been undertaken to reduce outstanding indebtedness and invite further national and international measures in that regard, including, as appropriate, debt cancellation and other arrangements.

The enhanced Heavily Indebted Poor Countries Initiative provides an opportunity to strengthen the economic prospects and poverty reduction efforts of its beneficiary countries. Speedy, effective, and full implementation of the enhanced Initiative, which should be fully financed through additional resources, is critical. Heavily indebted poor countries should take the policy measures necessary to become eligible for the Initiative. Future reviews of debt sustainability should also bear in mind the impact of debt relief on progress towards the achievement of the development goals contained in the Millennium Declaration. We stress the importance of continued flexibility with regard to the eligibility criteria. Continued efforts are needed to reduce the debt burden of heavily indebted poor countries to sustainable levels. The computational procedures and assumptions underlying debt sustainability analysis need to be kept under review. Debt sustainability analysis at the completion point needs to take into account any worsening global growth prospects and declining terms of trade. Debt relief arrangements should seek to avoid imposing any unfair burdens on other developing countries.

VII. Addressing Systemic Issues: Enhancing The Coherence and Consistency of the International Monetary, Financial, and Trading Systems in Support of Development

In order to complement national development efforts, there is an urgent need to enhance coherence, governance, and consistency of the international monetary, financial, and trading systems. To contribute to that end, we underline the importance of continuing to improve global economic governance and to strengthen the United Nations leadership role in promoting development.

Important international efforts are under way to reform the international financial architecture. Those efforts need to be sustained with greater transparency and the effective participation of developing countries and countries with economies in transition.

Strong coordination of macroeconomic policies among the leading industrial countries is critical to greater global stability and reduced exchange rate volatility, which are essential to economic growth as well as for enhanced and predictable financial flows to developing countries and countries with economies in transition.

The multilateral financial institutions, in particular the International Monetary Fund, need to continue to give high priority to the identification and prevention of potential crises and to strengthening the underpinnings of international financial stability.

It is essential to ensure the effective and equitable participation of developing countries in the formulation of financial standards and codes. It is also essential to ensure implementation, on a voluntary and progressive basis, as a contribution to reducing vulnerability to financial crisis and contagion.

Sovereign risk assessments made by the private sector should maximize the use of strict, objective, and transparent parameters, which can be facilitated by high-quality data and analysis.

Good governance at all levels is also essential for sustained economic growth, poverty eradication, and sustainable development worldwide. To better reflect the growth of interdependence and enhance legitimacy, economic governance needs to develop in two areas; broadening the base for decision-making on issues of development concern and filling organizational gaps.

A first priority is to find pragmatic and innovative ways to further enhance the effective participation of developing countries and countries with economies in transition in international dialogues and decision-making processes. Within the mandates and means of the respective institutions and forums, we encourage the following actions:

- International Monetary Fund and World Bank: to continue to enhance participation of all developing countries and countries with economies in transition in their decision-making and thereby to strengthen the international dialogue and the work of those institutions as they address the development needs and concerns of these countries;

- World Trade Organization: to ensure that any consultation is representative of its full membership and that participation is based on clear, simple, and objective criteria;

- Bank for International Settlements, Basel Committees, and Financial Stability Forum: to continue enhancing their outreach and consultation efforts with developing countries and countries with economies in transition at the regional level and to review their membership, as appropriate, to allow for adequate participation;
- *Ad hoc* groupings that make policy recommendations with global implications: to continue to improve their outreach to non-member countries and to enhance collaboration with the multilateral institutions with clearly defined and broad-based intergovernmental mandates.

To strengthen the effectiveness of the global economic system's support for development, we encourage the following actions:

- Improve the relationship between the United Nations and the World Trade Organization for development, and strengthen their capacity to provide technical assistance to all countries in need of such assistance;
- Support the International Labour Organization, and encourage its ongoing work on the social dimension of globalization;
- Strengthen the coordination of the United Nations system and all other multilateral financial, trade, and development institutions to support economic growth, poverty eradication, and sustainable development worldwide;
- Mainstream the gender perspective into development policies at all levels and in all sectors;
- Strengthen international tax cooperation through enhanced dialogue among national tax authorities and greater coordination of the work of the concerned multilateral bodies and relevant regional organizations, giving special attention to the needs of developing countries and countries with economies in transition;
- Promote the role of the regional commissions and the regional development banks in supporting policy dialogue among countries at the regional level on macroeconomic, financial, trade, and development issues.

VIII. Conclusion: Staying Engaged and Activities in 2003

In adopting the Monterrey Consensus, the international community recognized that building a global alliance for development would require an unremitting effort. Hence, the Monterrey Consensus embodies a major commitment by all stakeholders to keeping fully engaged, nationally, regionally, and internationally.

In that context, it identified a series of interconnected elements related to: (a) interactions between representatives of the Economic and Social Council and the directors of the Executive Boards of the World Bank and IMF, as well as representatives of the appropriate intergovernmental bodies of WTO; (b) the annual spring meeting of the Council with the Bretton Woods institutions and WTO; (c) the biennial high-level dialogue of the General Assembly on financing for development and related issues; and (d) modalities for participation of all relevant stakeholders, including civil society and the private sector.

Follow-up to the Monterrey Consensus is characterized by the involvement of civil society and the business sector in the process. Specific modalities include the setting up of informal study groups, comprising representatives of interested Governments, international organizations, civil society, business, and academia.

The 2003, high-level dialogue consisted of an innovative series of interactive plenary and informal meetings and round tables, with the participation of all relevant stakeholders, on the implementation of the results of the conference, including consideration of the theme of coherence and consistency of the international monetary, financial, and trading systems in support of development. The President of the General Assembly is to prepare a summary of the dialogue which will serve as a major input to a resolution of the Assembly on the follow-up to the Conference.

A Panel Discussion on International Cooperation in Tax Matters, Capital Flight, and Institutional Framework during the General Assembly was organized in October 2003. The Panel Discussion discussed: (a) the tax aspects of capital flight in view of the recommendations of the Zedillo Report and the Monterrey Consensus; (b) an analysis of their initiatives and proposals on tax havens and harmful preferential tax regimes and the taxation of savings, in order to determine the impact of such proposals and proposals on capital flight from developing countries and countries in transition; and (c) a review of the benefits of increased exchange of tax information as a way to combat capital flight.

In order to achieve further progress in the area of international development, the cooperation of all countries will be needed. It is hoped that the Monterrey Consensus has encouraged countries to work together in this effort and will continue to encourage such cooperation in the future.