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On the
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**FINANCING FOR DEVELOPMENT
IMPLEMENTING THE MONTERREY CONSENSUS**

Attached for the April 21, 2002 Development Committee meeting is a background note prepared by the staff of the World Bank and the International Monetary Fund entitled "Financing for Development – Implementing the Monterrey Consensus". This subject will be considered under item I.A of the Provisional Agenda

FINANCING FOR DEVELOPMENT

IMPLEMENTING THE MONTERREY CONSENSUS

*Paper Prepared by the Staff of the World Bank and the IMF for the Spring 2002
Development Committee Meeting*

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I. INTRODUCTION AND BACKGROUND

1. The International Conference on Financing for Development (FfD) took place as scheduled March 18-22, 2002 in Monterrey, Mexico, marking an important landmark in the partnership on global development. The Outcome Document that was negotiated at the final Preparatory Committee meeting in New York in January 2002 (the “Monterrey Consensus”) was formally adopted at the Conference, and the discussions focused primarily on how to implement the Consensus. This note reviews the results of the FfD process and the Conference, taking the views previously expressed by the Development Committee as a point of reference. At its meeting in Ottawa in November 2001, the Development Committee discussed issues related to the Financing for Development (FfD) process and conference, and provided detailed views on the FfD issues in an attachment to their Communique.

2. The Bank, the IMF and the WTO continued to play an important role in the FfD process and actively participated in all Conference activities, including each of the plenaries and ministerial and summit roundtables, and in related activities such as the civil society and business forums. Events were also organized both before and during the Conference to highlight and disseminate key messages. This enabled us to continue to signal our strong engagement in the process and to influence its direction. In particular, the release of the Bank’s research report on “The Role and Effectiveness of Development Assistance: Lessons from World Bank Experience” contributed by helping to build support for well-designed aid programs. The release of the PRSP and PRGF reviews highlighted the Bank and the Fund’s approach to low-income countries and this was further pursued in a panel discussion on the PRSP Review. Other events included a presentation on the Bank’s Global Development Finance Report and a demonstration highlighting the use of distance learning technology for capacity building and the partnership between the World Bank Institute and Monterrey Tech, the distinguished local university.

II. OVERVIEW OF THE RESULTS OF THE FfD PROCESS AND CONFERENCE

3. Overall, the results of the FfD process and conference are quite positive. They created a powerful momentum to put development issues at the center of the global agenda and arguably reinvigorated an international partnership for development. The comprehensiveness of the FfD agenda (including domestic resource mobilization, FDI and other private flows, trade, ODA, debt relief and systemic issues) enabled the Conference to address the means and constraints to poverty reduction and to highlight the role of the internationally-agreed development goals as a tool to measure progress towards these objectives. Also, the guidance provided by the Development Committee and the involvement of the Bretton Woods Institutions (BWI) and finance ministers contributed to the achievement of a significant degree of policy coherence, focused on pragmatic approaches to these issues.

4. In summary, we have the makings of a new development partnership based on a framework of mutual accountability between developed and developing countries to achieve real, measurable improvements in growth and poverty reduction. In Monterrey, developing countries acknowledged that they must take responsibility for good governance and sound policies as African leaders are doing under NEPAD. These leaders have committed to implementing sound economic policies, tackling corruption, putting in place good governance, investing in their people, and establishing an investment climate to attract private capital. There is now broad consensus that the PRSP/CDF approach can provide the overarching framework for ensuring coherence in country policies and partnerships. In turn, the international community committed to scale up and intensify their efforts to help developing countries meet the internationally-agreed development goals by:

- (a) making sure that aid resources are there to match the commitment to progress on policy reforms on the part of developing countries;
- (b) committing not only to tear down trade barriers that harm the poorest, but also to support developing countries in addressing constraints that prevent them from fully realizing the benefits from trade and investment flows;
- (c) implementing the HIPC Initiative so that there is an enduring solution to the debt burden of low-income countries; and
- (d) renewed emphasis on and calls for a new partnership on capacity building, using the power of the knowledge economy.

5. Consistent with the guidance of the Development Committee, several broad themes were reflected in the Outcome Document and in the follow-up discussions in Monterrey:

- (a) ***Policies.*** The Monterrey Consensus strengthens agreement on the policies required within developing countries to mobilize domestic resources, attract private investment and utilize aid effectively. It reaffirms the importance of sound policies and good governance to ensure ODA effectiveness and emphasizes country ownership and partnership, including references to PRSPs and harmonization.
- (b) ***Opportunities.*** For all countries, trade is a key source of growth opportunities. Enhanced market access and effective participation by developing countries in the Doha development agenda is essential to ensure that the benefits of globalization reach all countries.
- (c) ***Resources.*** The Monterrey Consensus recognizes that substantial increases in ODA are required to enable the poorest countries to cut poverty in half and achieve other internationally-agreed development goals. Aid should build on sound policies, and when these are in place, it has been and can be effective. The announcements by the European Union and the United States before the Conference can begin to reverse declining or stagnant aid levels. Specifically, the EU's decision to boost its ODA to 0.39 percent of income by 2006 and the U.S. announcement of an increase in development assistance by US\$5 billion within three years constitute significant steps in this direction.
- (d) ***Institutions.*** A key theme was the need for capacity building, to strengthen institutional performance in each of the areas covered by the FfD agenda (e.g., for mobilizing and using domestic resources more effectively, for creating a favorable investment climate, to enable developing countries to access trade opportunities, for external debt management, etc.)
- (e) ***Systemic Issues and Participation by Developing Countries.*** The FfD Outcome Document generally follows the Development Committee Communique in "making the most of existing institutions", and respect for different institutional mandates, responsibilities and governing bodies. Although there were a few calls for new institutional initiatives or arrangements at the Conference, the most widely recognized point was the close collaboration between the UN and the BWI in the FfD process over the past two years, which should facilitate further collaboration at the global and country levels in implementing some aspects of the Monterrey Consensus. Nevertheless, there was a strong desire to enhance the participation of developing countries, ensuring that international discussions and decisions are fully cognizant of the perspective of developing countries. There were also calls for improving global economic governance—the coherence and consistency of the international monetary, financial, and trading systems—by means of enhanced collaboration among existing institutions.

- (f) ***Monitoring and Strengthening Effectiveness.*** All participants agreed that improved development effectiveness means focusing on results and a systematic approach to the monitoring of the actions of all parties.

III. IMPLICATIONS FOR THE BANK AND IMF

6. In each of the areas covered by the FfD agenda, the Bank and IMF expect to provide more and better assistance, both financial and technical, and focused economic dialogue in the context of strong national ownership of programs and partnerships. While the directions of FfD accord well with the BWI's strategic thrusts, a scaling up of our efforts will clearly be required. A renewed emphasis on scaling up and partnership will help to enhance the already important leveraging function of the BWIs, focusing, in particular, on enhancing the environment for the effectiveness of bilateral and other aid flows. Monterrey largely endorsed the strategies, priorities and activities of the BWI based on the two-pillar approach: country-owned domestic frameworks and policies, and an enabling international environment. For countries, these include efforts to encourage: sound macroeconomic policies; good governance; improved investment climates; capacity building; country ownership; and partnerships. For an enhanced international environment, these include initiatives to promote more and better aid, better market access for developing countries, and improved crisis prevention. In addition, for the Bank, the outcomes of Monterrey reinforce its role in supporting countries in implementing structural and institutional reforms, its direct and catalytic role in promoting higher and more effective development assistance, and the role of IFC/MIGA in catalyzing private investment. For the IMF, they emphasize its mandate for promoting global financial stability—a precondition for growth—and its associated roles in surveillance and in crisis prevention and resolution.

7. Specifically, following Monterrey, the Bank and the Fund intend to scale up and intensify their efforts in a number of areas. In particular, the focus will be on helping to implement the policy and governance agenda (through catalytic promotion of policy, governance and institutional reforms), the aid agenda (by leveraging and enhancing the effectiveness of all aid resources), and the trade agenda (by supporting market opening and capacity building) including, *inter alia*, the following:

- (a) working within the PRSP/CDF framework, help countries establish the macroeconomic, governance and structural foundations for accelerated growth and poverty reduction. In particular:
- (i) assist countries to mobilize domestic financial resources and improve the quality of public expenditure (work on governance, tax systems, public expenditure management, financial sector assessment, social impact and incidence studies);

- (ii) help countries create a favorable investment climate and mobilize FDI and other private flows (work on legal and judicial systems, private sector assessments and implementation of PSD strategy, IFC/MIGA/FIAS work programs, investment climate surveys, etc.); and
 - (iii) help countries achieve debt sustainability and improved debt management (HIPC progress, debt management TA, commodity risk management initiative).
- (b) help countries, especially emerging market economies, to protect themselves better against shocks and financial crises with major impact on the poor;
 - (c) promote improved market access and help developing countries benefit from trade opportunities (trade-related TA, capacity building through the Integrated Framework for the poorest countries, etc.);
 - (d) promote the most effective use of all existing aid resources and new commitments for maximum development impact, through better coordination using the PRSP process, improved measurement, monitoring and management for better results, and harmonizing and simplifying aid processes and requirements; and
 - (e) address systemic issues to ensure coordination/coherence among institutions at policy and operational levels (focusing on meeting the MDGs), and to find pragmatic and innovative ways to further enhance the effective participation of all countries in international *fora* (using PRSPs to promote partnership, consultation and coherence within countries and among donors, building on the IDA-13 experience of participation by recipient countries, and continued engagement with the UN and other partners, particularly on integrating the MDGs at the operational levels and monitoring progress).

8. Looking ahead, leaders committed to keeping fully engaged, nationally, regionally and internationally, to ensuring follow-up to the implementation of agreements and commitments reached at the conference, and to continuing to build bridges between development, finance and trade organizations and initiatives. Greater coordination among existing institutions is called for, while respecting their individual mandates and governance structures. To this end, the spring meeting between ECOSOC and the Bretton Woods Institutions is to address coherence, coordination, and cooperation in the context of follow-up to the conference. It is also envisaged that representatives of the ECOSOC and the Directors of the Executive Boards of the Bank and the Fund will interact periodically to discuss the follow-up to Monterrey. The UN Secretary-General is requested to submit an annual report on follow-up efforts and the Outcome Document also calls for a follow-up international conference to review the implementation of the consensus, the modalities of which will be decided no later than 2005.

9. While the FfD Outcome Document did not focus explicitly on financing for global public goods (GPGs), there was considerable discussion of this issue in Monterrey and a sense from a number of governments that they would like to see further progress on this. The Bank and the IMF will continue to move in the direction agreed in previous Development Committee discussions (i.e., focusing on specific priority activities while consolidating initiatives to achieve efficient use of resources and ensuring that activities are anchored in national as well as global strategies). This is also an issue that will arise in connection with the forthcoming World Summit on Sustainable Development (WSSD) in Johannesburg.

IV. PREVIEW OF WSSD

10. In the follow up to Monterrey the spirit dominating the Johannesburg preparatory process is one of recognition that the FfD Summit was a watershed in which the global community committed to increasing resources, within the context of a global development partnership, and that in Johannesburg, there will be an unparalleled opportunity to put these resources to work for sustainable development. While the preparatory process for the Johannesburg Summit is still at an early stage, it is expected to build on the accomplishments of Monterrey, by focusing on the implementation of specific actions aimed at sustainable growth with poverty reduction. It is also expected to follow up on the implementation of Agenda 21 (derived from the Rio Conference) and to set measurable targets for future progress which are aligned with the MDGs. For the World Bank, there are clear sectoral and thematic priority areas, such as poverty and environment; agricultural development (with a strong focus on Africa); clean energy; natural resource management, including water resources and forests; health; and vulnerability to social and environmental stress. The World Bank Institute, with its mandate for capacity building, has organized a series of Global Dialogues, using videoconferencing and e-mail discussions, on key issues such as food security, water, and energy.

11. The involvement of the BWI in the Johannesburg Summit process is focusing on three main activities:

- (a) ***Contributing to the UN process of regional and global preparatory meetings and the Summit.*** This involves working closely with governments, the UN system, the NGOs and the private sector communities within the multi-stakeholder dialogue process on thematic issues.
- (b) ***Offering a framework for analysis and actions on issues of central concern to the Summit.*** The 2002/2003 World Development Report will be a substantial contribution to the debate on sustainable growth and development. Other issues the World Bank and the IMF (together with other agencies) are engaged on include innovative financing for sustainable development, poverty/environment linkages, and global public goods. The IMF is also engaged in a study on environmentally-sustainable fiscal reforms.

- (c) *Aligning strategies and lending priorities with the Millennium Development Goals* and identifying partnerships and supportive actions for sustainable development, urging the Summit to further the global commitments toward implementation of the Millennium Declaration.
12. As the preparatory process for Johannesburg accelerates in the coming months, the World Bank and the IMF stand ready in their own respective areas to support the main thrust of the Summit—poverty eradication through sustainable development—and use the process to further enhance relations with the UN.