

International Conference on Financing for Development

A GLOBAL RESPONSE

We, heads of State and Government, have gathered in Monterrey, Mexico, to discuss financing for development around the world, particularly in developing countries. Our goal is to combat poverty and to advance to a fully inclusive and equitable global economic system.

Mobilizing the financial resources and achieving the national and international economic conditions for development goals—including those contained in the Millennium Declaration to reduce poverty—is a first step to ensuring that the 21st century becomes the century of development for all.

After the September 11 terrorist attacks, the global economic slowdown deepened—further hindering progress toward better living standards. It has now become all the more urgent to enhance collaboration among all stakeholders to jump-start a sustainable recovery and to address the long-term challenges of financing for development. Our resolve to act together is stronger than ever.

Development must come from within and the role of national policies cannot be overemphasized. Each country must pursue its own economic and social development. Yet domestic economies are more resilient when national efforts need to be supported by an enabling international environment.

The increasingly interdependent world economy requires a holistic approach to the interconnected national, international, and systemic challenges of financing for development—sustainable, gender-sensitive, people-centered development in all parts of the globe. To that end, concerted actions are needed in each interrelated area of our agenda, with the active partnership of all stakeholders, public and private.

As leaders, we will join forces through a strengthened multilateralism. We must fully realize the potential of fostering worldwide cooperation. Upholding the Millennium Declaration, we will build a global system around the principles of equity, participation, ownership, transparency, and accountability.

II. LEADING ACTIONS

Mobilizing domestic financial resources for development

In our common pursuit of growth, poverty eradication, and sustainable development, a cr
 conditions for mobilizing enough domestic savings to sustain adequate levels of investment in productive and human capacity. ı
 enhance the appropriateness, coherence, and consistency of macroeconomic and structural policies. An enabling dc
 mobilizing domestic resources, reducing capital flight, aı

Improved domestic governance. Good governance is essential for sustainable development. Sound national policies and solid institutions are the basis for sustained economic growth, employment creation, and poverty reduction. Freedom, peace and secu
 rule of law, market-oriented policies, and an overall commitment to just societies, are also preconditions.

We will consolidate appropriate polic
 well-functioning business sector, while improving income distribution, empowering women, an
 recognize that the specific mix between market-oriented policies and state intervention will vary from country to country,
 circumstances.

Fighting corruption is a priority. Taking into account existing instruments, we will negotiate a United Nations comprehen
 corruption, including stronger cooperation to eliminate money laundering, terror financing, and other illegal activities—as well
 transferred funds of illicit origin.

Sound macroeconomic policies. We recognize the need to pursue sound macroeconomic policies geared to high rates of economic growth, full
 employment, poverty eradication, price stability, and sustainable fiscal and external balances. Governments :
 inflationary distortions and abrupt economic fluctuations that negatively affect income distribution and resource allocatio
 fiscal and monetary policies, an appropriate exchange rate regime is required.

Securing fiscal sustainability. An effective, efficient, and accountable system for mobilizing public resources and managing their use by
 governments is essential. We recognize the need to secure fiscal sustainability through medium-term fiscal framew
 efficient tax systems and improvements in public spending that do not crowd out productive pri
 recognize the potential of international tax cooperation to enhance the scope of national fiscal efforts.

Social security and safety nets. Investments in basic economic infrastructure and social services including education, health, nutrition, and social
 security programs—which take special care of children and are gender sensitive and fully inclu:
 communities—are vital to enabling people to better adapt to and benefit from changing economic conditions and opportu:
 economic activity. Recent economic crises have also stressed the importance of effective social safety nets.

Financial sector strengthening. We recognize the need to strengthen the domestic financial sector, encouraging the orderly development of capital
 markets through institutional arrangements that channel savings and foster productive investments, including equity markets.

This requires a strong central bank and a solid system of financial intermediation, supported by a transparent regulatory framew
 supervision mechanisms

Microfinance and credit for small and medium-size enterprises, including in the rural sector, as well as savings institutions such as postal savings,
 are important to enhance the social impact of the financial sector. Well managed development banks can be :

access to finance to these enterprises, as well as an adequate supply of long-term credit and the promotion of deepening domestic financial development. We must aim to develop pension schemes that maximize the source of savings. It is also important to reduce the transfer costs of migrant workers' remittances and explore investment in projects of high development impact. Wherever it

Capacity building. We comm

public finance and public administration, gender budget analysis, financial regulation and supervision, early warning and debt management. In the process, we shall particularly address the special needs of Africa, the least developed countries, small island countries, and landlocked developing countries.

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

Private international capital flows, particularly long-term flows, as well as international financial stability, are a vital complement to national development efforts. Foreign direct investment contributes toward financing development in the long term, in addition to portfolio investment. And foreign direct investment is especially important for its potential to transfer knowledge, skills, and technology, create jobs, boost overall productivity, enhance competitiveness and entrepreneurship, and ultimately promote economic growth and development. A central challenge therefore is to attract direct investment to developing countries.

To attract stable inflows of capital, countries need to continue their efforts to achieve transparent, stable, and predictable investment climates embedded in sound macroeconomic policies and institutions that allow businesses, both domestic and foreign, to invest profitably and with maximum development impact. This requires sound legal and regulatory frameworks for promoting and protecting investments, including avoidance of double taxation, and competition policy. These efforts can be enhanced through technical assistance for capacity building as requested by recipients, in line with the actions envisaged in the Doha Ministerial Declaration.

To complement national efforts, we call on the international financial and development institutions to increase their support for investment in infrastructure development and other priority areas, including projects to bridge the digital divide. This support includes provision of export credits, risk guarantees, cofinancing, and leverage of aid resources and venture capital, as well as provision of information on investment opportunities. We will strengthen the multilateral financial and development institutions to perform these tasks.

While Governments provide the framework within which businesses operate, firms, for their part, have a responsibility to be consistent partners in the development process. We urge firms to consider, in the spirit of good corporate citizenship, not only their economic but also the social and environmental implications of their undertakings.

We underscore the need to sustain sufficient and stable private flows of all types to developing and transition countries. It is important to design measures, in source and recipient countries, to increase the transparency of financial flows, reduce the volatility of short-term capital flows and of highly leveraged transactions, including trade credit, and to implement well-sequenced processes for liberalizing capital flows; and to improve sovereign risk assessments based on well-disclosed, objective economic criteria. Multi-

International trade as an engine for development

Freer trade would substantially stimulate development worldwide, benefiting both industrial and developing countries. The current slowdown in the world economy urges us to reaffirm our commitment towards trade liberalization, and ensure recovery, growth and development. We thus welcome the WTO's decision to place the needs and interests of developing countries at the heart of the WTO work program.

To benefit fully from trade, which in many cases is the single most important source of development financing, developing and transition countries must establish appropriate institutions and policies. Trade liberalization is a fundamental element in the development strategy of active promotion of exports and the attraction of foreign direct investment to boost economic growth.

Nations will only attain full benefits from such reforms if we ensure an open multilateral trading system. Trade barriers, subsidies, and other trade-distorting measures, particularly in agriculture, have negative effects on developing countries that significantly exceed the value of aid flows—and must be eliminated.

To ensure that world trade supports development goals, we will strive to:

- Strengthen the rules and disciplines of the World Trade Organization, to prevent abuses, particularly in antidumping measures; secure full implementation of all commitments made at the Uruguay Round; and facilitate, in non-discriminatory terms, the accession of all developing and transition countries to the WTO.
- Liberalize trade in agricultural products, eliminating export subsidies and substantially reducing production subsidies in developed countries; accelerate the elimination of trade barriers of developed countries in manufactures, particularly labor-intensive manufactures such as textiles and clothing; liberalize trade in services of export interest to developing countries; address the issue of labor migration through rules governing short-term overseas employment; and reduce tariff peaks, eliminate tariff escalation, and make fully operational the special and differential treatment provisions in trade agreements.
- Regarding trade-related intellectual property rights, ensure recognition of traditional knowledge and promote the transfer of knowledge and technology, while providing incentives to innovate, and respecting—in particular—the health needs of developing countries.

We encourage the WTO member countries to make their best efforts to achieve the Doha Development Agenda.

We also commit ourselves to enhancing the role of regional and sub-regional agreements and free trade areas in the construction of a balanced trading system. International financial institutions, including the regional development banks, should support sub-regional and regional integration among developing countries.

To speed up our efforts to ensure full and predictable access of developing country exports to all markets, we call on industrial countries that have not already done so, to take immediate steps to benefit the least developed countries, as well as

Development, and the small island, landlocked, and transit developing countries. At the same time, we call on these countries to reduce, and when possible eliminate, trade barriers among themselves.

To further support national efforts to benefit from trade opportunities, we call on multilateral and bilateral financial and development institutions to deepen their support, with additional resources, for removing supply-side constraints, improving trade capacity, strengthening institutional development, and enhancing overall productivity and competitiveness.

Multilateral help is also needed to stabilize the export revenue of countries that still depend heavily on commodity exports. Thus, we call for a review and impending activation of the IMF Compensatory Financing Facility to help these countries and their producers to insure themselves against risk, including against natural disasters.

In support of the process launched in Doha, attention should go to strengthening the participation of developing countries in trade negotiations. In particular, developing countries need assistance to participate in the negotiations. We call for the cooperation of all relevant stakeholders, including UNCTAD. To this end, we call on the WTO to continue its efforts.

Revitalizing ODA. Official development assistance plays an essential role as a complement to other sources of financing for development, especially in those countries with the least capacity to attract private direct investment. ODA can help a country mobilize its domestic resource mobilization over an appropriate time horizon while human capital, productive capacity, and technology are being developed. ODA can also help to improve the environment for private sector activity and thus pave the way for robust growth. For countries, especially the least developed, small island, and landlocked developing countries, ODA still provides the bulk of external financing and is critical to achievement of the Millennium development goals.

ODA cannot be effective in the absence of sound policies and good governance. High levels of ODA support, coordinated among donors and recipients on this basis, can help countries set short- and medium-term development targets. We call on all countries to pursue partnerships of support.

Along with substantial policy improvements in the recipient countries, ODA must at least double if the Millennium development goals are to be achieved. We underscore the need to increase overall ODA to the annual equivalent of 0.7 percent of industrial countries' GNP for least developed countries. We call on all countries to reach or exceed these targets and urge others to follow their lead, undertaking multiyear commitments.

To raise the political support that is needed to mobilize more ODA, we request the Secretary-General to launch a global information Campaign for the Millennium Goals. This campaign should be based on the principle of increasing international development assistance, as a vital investment in building a more secure world for all. The campaign will focus on best practices in the use of aid, especially aid for poverty reduction and economic growth. It will require the participation of all stakeholders, including civil society organizations.

Recipient and donor countries, as well as international institutions, should strive to make ODA more effective. Multilateral and bilateral financial and development institutions to intensify efforts to:

- Harmonize their operational policies and procedures, reduce transaction costs, and make ODA disbursement and delivery more flexible.
- Avoid burdensome restrictions such as aid tying, and shift from project-based to budget support mechanisms for aid delivery.
- Increase the concessionality of development financing, including greater use of grants, while ensuring full additionality of resources.
- Give recipient countries more influence over the design of technical assistance programs and more control over the use of technical assistance resources.
- Deepen triangular cooperation, including South-South cooperation, as a delivery tool for assistance.

To support these goals, we invite donor countries to consider immediately applying these measures in support of the comprehensive strategy embodied in the New Partnership for African Development, as well as in support of other developing countries.

Global public goods financing. To hone a common approach to global public goods, such as the eradication of HIV/AIDS and other major infectious diseases, we need a participatory process for defining such goods and setting priorities and formulating strategies for their provision. That process will require stronger public-private cooperation. Also needed is a dual-track accounting system to differentiate global public goods financing from ODA, since development assistance should not be reduced to pay for global public goods activities. Activities anchored in national and global strategies will require fully additional funding. In others, flexibility and reinforcement of existing mechanisms will help countries take ownership.

Innovative sources of multilateral development financing. We recognize the value of exploring innovative sources of multilateral finance to supplement existing sources of official development assistance, humanitarian aid, and global public goods financing. In this regard, careful consideration, in all appropriate forums, to the results of the study requested to the Secretary-General on possible innovative sources of multilateral finance.

Strengthening multilateral development banking. Multilateral development banks continue to play a vital role in serving the financing needs of developing and transition countries. They contribute to guarantee an adequate flow of international private capital markets, and partly offset the excessive volatility of such markets that affect countries that have access to international private capital markets. Regional development banks and sub-regional financial institutions add flexible financial support to national and regional development banks, enhancing ownership and overall efficiency.

We will ensure that the long-term resources at the disposal of the international financial system, including regional and sub-regional institutions and funds, allow them to adequately support long- and medium-term economic and social development; technical assistance; and

and social protection schemes. We will also enhance their overall lending effectiveness, conditionality, and closer coordination with the private sector.

Sustainable debt financing and external debt relief

Sustainable debt financing is an important option for mobilizing resources for public and private investment. National comprehensive monitoring and management of external liabilities, embedded in sound macroeconomic policies, are a key element in avoiding serious mismatches between financing needs and repayment capacity. Such policies play an important role.

Noting the importance of providing financial sustainability for the most highly indebted developing countries, we welcome the bilateral initiatives that many governments have undertaken to reduce outstanding indebtedness, and we invite further bilateral efforts in this regard.

The Highly Indebted Poor Countries' (HIPC) Initiative provides a unique opportunity to strengthen the economic efforts of its beneficiary countries, as they commit to sound policies. But a continued effort is needed to reduce debt in low-income countries to sustainable levels, and speedy and full implementation of the HIPC initiative is critical. Any further steps to enhance this initiative should be based on two considerations. First, debt sustainability should be assessed in terms of each country's capacity to raise the finance needed to achieve Millennium development goals. Second, any new arrangement should avoid imposing burdens on other developing countries.

We call on the IMF and the World Bank to propose flexible policy actions for prompt, comprehensive debt relief for least developed, landlocked developing countries and other low-income countries with severe debt-servicing problems, hit by natural catastrophic events, terms of trade shocks, or emerging from conflict.

While recognizing that a flexible mix of instruments is needed to respond appropriately to crisis situations, and to build up the capacities for public expenditure management, we underscore the value of ongoing efforts to support the development of clearer rules and the distribution of the cost of crisis-resolution adjustments between the public and private sectors and among debtors, creditors, and investors. We also encourage exploring innovative mechanisms to address debt concerns of developing and transition countries.

Addressing systemic issues: enhancing the support of development

To complement national development efforts, the international financial architecture must be strengthened consistently. To contribute to this end, efforts should be strengthened at the national level to enhance coordination among all relevant ministries and other domestic institutions. Similarly, we must take full advantage of international institutions and policy coordination to meet the needs for sustained economic growth, poverty eradication, and sustainable development.

Reforming the international financial architecture. Important international efforts are underway to reform the international financial architecture. These need to be sustained. We also underscore our commitment to support these efforts, as an important component of an international financial architecture supportive of development.

Stronger coordination of macroeconomic policies among the leading industrial countries exchange rate volatility, which are important elements for enhanced and predictable financial flows to developing and transition countries. In regard

The multilateral financial institutions, in particular the IMF, should continue to give high priority to preventing crises and to strengthening the underpinnings of international financial stability. In this regard, we call on the Fund to strengthen its surveillance of all economies and to support the timely detection of external vulnerability through well-designed early warning systems.

We call on multilateral financial institutions, in providing policy advice and supporting adjustment programs, to work on the best owned paths of reform, and to pay due regard to the special needs and implementing capacities of developing and transition countries to achieve the best possible outcomes for growth and development.

A basic priority is to ensure progressive, voluntary compliance with internationally accepted macroeconomic policy and data transparency, institutional market infrastructure, and financial regulation and supervision. To ensure that the needs of developing countries are taken into account, it is essential to ensure their adequate participation in the formulation, as well as implementation, of these standards and codes, including through technical assistance for capacity building.

We underline the need to ensure that the multilateral financial institutions, particularly the IMF, continue to have enough timely, accessible emergency financing, including through possible temporary issues of special drawing rights and credit lines, to countries affected by financial crises or in danger of contagion. In this regard, we also underline the need to enhance the stabilizing role of regional and sub-regional reserve funds, swap arrangements, and similar cooperation mechanisms.

To promote fair burden-sharing and prevent moral hazard, we welcome domestic bankruptcy procedures, such as recently proposed by the IMF, that will engage debtor countries in the resolution of unsustainable debts in a timely and efficient manner, and to ensure emergency financing in times of crises.

Combating money laundering and the finance of terrorism are urgent priorities that require a united front among all countries. We call on ourselves to work together to eradicate these pernicious activities at all levels.

Improving global economic governance. Good governance at the international level is also essential for sustainable development worldwide. To better reflect the growth of interdependence and enhance legitimacy, global economic governance needs a solid institutional base for decision making on issues of global concern, and filling organizational gaps. To complement and consolidate advances in global economic governance, we must strengthen the UN system, including the World Bank and the IMF.

Broadening and strengthening the representation and participation of developing countries in global economic governance bodies is essential to ensure the soundness and ownership of agreements, codes, and standards. Active consultation with civil society and the business sector is an important component of this process. Transparency, accountability and responsiveness. To these ends, we welcome further actions to help developing countries to promote and defend their interests in multilateral forums.

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

- International Monetary Fund and World Bank: To continue to enhance the role of developing countries in their decision-making and deliberative bodies, taking into account these countries' real economic weight, as well as the need to strengthen the voice of low-income countries.
- World Trade Organization: To ensure that any steering group is representative of the full WTO membership and
- Bank for International Settlements, Basel Committees, and Financial Stability Forum: To enhance their outreach and consultation efforts with developing countries at the regional level and to review their membership, as appropriate, to
- Ad-hoc groupings that make policy recommendations with global repercussions: To strengthen their outreach to developing countries and to enhance compatibility with the work of multilateral institutions with clearly defined and broad-based intergovernmental mandates.

To address several gaps in global economic governance, we encourage the following actions:

- Strengthen the WTO, by enhancing its capacity to provide technical assistance to developing countries and by upgrading its institutional relationship with the UN to a similar level to that among the IMF, World Bank, and UN, in accordance to UN practices.
- Strengthen the capacity of the International Labour Organization to implement its agreed standards.
- Strengthen the coordination of the UN system and all other multilateral financial and development institutions, including environmental institutions, to more decisively mainstream gender issues into economic and development policies and support growth and sustainable development worldwide.
- 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. In particular, we encourage them to engage in an all-inclusive global intergovernmental network of dialogue and interaction, giving special
- Promote the role of the UN regional commissions and the regional development banks in supporting policy dialogue among peers on macroeconomic, financial, and development issues.

We attach priority to reinvigorating the UN system as a fundamental pillar for the promotion of economic system work for all. We reaffirm our commitment to enable the G

deliberative, policy-making, and representative organ of the United Nations, and to strengthen further the Economic and Social Council to fulfill the role ascribed to it in the UN Charter, including through renewed efforts to reform it.

III. STAYING ENGAGED

To build a global alliance for financing for development will require an unremitting effort. We thus commit to keep ensuring proper follow-up of the implementation of agreements and coordination between development, finance, and trade deliberations.

To this end, building on the successful experience of this Conference and the process leading up to it, we shall meet with the existing United Nations General Assembly's high level development dialogue and the participation of all public and private stakeholders associated with the Monterrey Conference.

To prepare for the Forum, we have also decided:

- To pursue the continual engagement of our ministries of finance, development cooperation, trade, and foreign affairs, as well as our central banks.
- To harness the active support of the UN regional commissions and the regional development banks.
- To keep the financing for development process in the agenda of the intergovernmental bodies of all stakeholders, and encourage similar attention by business and civil society organizations.
- To establish an agile set of interactions for substantive engagement among ECOSOC, IMF, WB, WTO, UNCTAD, and UNDP, as well as relevant regional bodies. To this end, we will build on the experiences of the ECOSOC high level policy dialogue and the ECOSOC-Bretton Woods institutions meetings.

To underpin these efforts, we request the Secretary-General to provide—with collaboration from all stakeholders concerned, fully utilizing the ACC mechanism—all necessary support to the follow-up of the commitments reached at this Conference.