

CANZ Suggested Elements for the Doha Review Conference Outcome Document: Review of the Monterrey Consensus on Financing for Development

The countries that make up the CANZ group – Canada, Australia, and New Zealand – have worked together throughout the review sessions to coordinate on the chapter-by-chapter evaluation of the Monterrey Consensus on Financing for Development. As this review process turns to drafting a Doha Review Conference outcome document, CANZ welcomes the opportunity to continue to work collaboratively on recognizing and assessing the progress made since Monterrey, as well as identifying good practices for moving forward in areas where more limited progress has been made since the Consensus was adopted in 2002.

Recognizing Progress Made: The Monterrey Consensus remains a strong, internationally agreed framework for promoting development cooperation and poverty reduction. The positive global advancements related to economic growth and financing for development that have occurred since 2002 should be recognized in the Doha draft outcome document. Identifying areas where global progress has been made provides momentum for overcoming the challenges that remain in realizing the full potential of the Consensus. CANZ recommends highlighting the following developments:

- Record levels of economic growth have been recorded in much of the developing world and have propelled some countries towards recording significant progress in reducing poverty and meeting the Millennium Development Goals (MDGs). According to the World Bank, developing countries recorded economic growth rates of over 5% in 2006, an unprecedented achievement in the last 50 years of development history.
- The positive economic growth recorded in developing countries since 2002 – and the current level of progress made on achieving global development targets – continues to be bolstered by an integrated international approach that mobilizes all sources of financing, including trade liberalization, debt relief, foreign direct investment, remittances, domestic financing, as well as official development assistance. This has resulted in many developing countries experiencing real GDP growth rates of over 7% in 2008.
- The volume of international assistance is increasing. G8 countries in particular are on track to double international assistance to Africa by fiscal year 2008-2009 over fiscal year 2003-2004 levels, in line with their commitments. Other donors, including CANZ, are also significantly increasing their ODA to their priority countries.
- Since 2002, international assistance to developing countries has not only increased in volume, but also effectiveness. Donor countries continue to make existing and new resources work more efficiently by enhancing focus and accountability in all development work.
- Specifically, donor countries have endorsed the Paris Declaration and are determined to deliver on commitments to make aid more effective by enhancing support for local ownership, alignment, harmonization, and mutual accountability.
- There is ample evidence suggesting that as a result of improvements to the investment and business environments in developing countries, private investors are now the largest contributors of new investments in the developing world.
- We are amongst a number of developed and transition economies – including some of the major markets for least-developed countries' exports – that are providing duty-free and quota-free market access for all or almost all exports from least-developed countries.
- Developing countries have increased their participation in the international trading system since 2002 and progress has been made on financing trade-related technical assistance, trade-related infrastructure, and the development of domestic productive capacity through the Aid for Trade process, first introduced at the 2005 WTO Hong Kong Ministerial.
- In the past, unsustainable debt burdens constrained the ability of countries to allocate sufficient resources to their development objectives. Since 2002, the international community has risen to the challenges posed in the Monterrey Consensus to improve the provision of debt relief to those developing countries facing unsustainable debt burdens.

- Many developing countries have been in a position to benefit from the new fiscal space provided by multilateral and bilateral debt relief initiatives, such as the Heavily Indebted Poor Countries (HIPC) Debt Initiative and the Multilateral Debt Relief Initiative (MDRI). The combined effect of these initiatives should result in a 90% reduction in external debt stock for 31 post-decision countries. This has involved an inter-generational commitment to financing debt-relief on the part of many developed countries.
- Since 2002, international financial institutions have improved their accountability to their memberships and other stakeholders. The IMF in particular has instituted a series of reforms to align the representation of fund members with their weight in the world economy, while at the same time enhancing participation of small and low-income countries through an increase in basic votes.
- Foundations play an important role in development finance, being able to experiment, take risks and work with partners that public sector donors and the private sector may find it difficult to do. Vertical funds can be a useful mechanism for targeting support to sectors or key issues that are otherwise considered to be underfunded; however, caution needs to be exercised to ensure that support channeled through these funds respects partner country development priorities.

Identifying Best Practices: Innovative policy and institutional reforms developed since Monterrey have highlighted a number of ‘good practices’ for policy making. Both developed and developing countries can make use of the lessons learned since 2002 and CANZ would recommend noting in the draft outcome document:

- The creation of an enabling domestic financial environment and political stability remains crucial to successfully attracting domestic and international resources to finance national development strategies. An enabling environment also attracts, retains, and effectively uses domestic resources to generate sustained economic growth, create employment, improve infrastructure and expand the tax revenue base.
- Country-owned and country-led strategies are essential for improving the investment climate that leads to economic growth and poverty reduction. It is the responsibility of donors to harmonize their assistance with development strategies that are determined by the recipient countries.
- In response to providing appropriate whole-of-government engagement in fragile and post-conflict states – that includes diplomacy, defense, and development – many members of the international community have created pooled funding mechanisms in the last five years. Such mechanisms promote more coherence across departments and provide flexible funding for ODA and Non-ODA activities.
- Trade has proven to be a valuable tool for development. It provides an important means by which developing countries can harness globalization to drive their own development and also provides access to a wider range of goods, services, technologies, and knowledge than would otherwise be available. As such, increasing market access for developing countries remains a vital catalyst for trade-led growth. Integrating trade issues into national development strategies is also important to help ensure the benefits flow to all people.
- Innovative financing mechanisms, particularly those that harness private sector resources have a key role to play in development. Nonetheless, each mechanism should be assessed on its own merits to ensure that it meets a need not presently addressed by existing mechanisms.
- Good governance remains a critical factor when ensuring financial resources are used effectively and appropriately. Good governance also contributes to the development of an enabling environment, which helps to attract not only official development assistance, but all sources of financing including taxes, investment, trade, and remittances.
- The transparent exchange of information and improved coordination with creditors – based on existing mechanisms – are valuable tools for ensuring debt sustainability for debt relief

beneficiaries. It is crucial that lending frameworks of financial institutions are sound and that the fiscal and debt management capacity of developing countries continues to improve.

- In this regard, the Debt Sustainability Framework, a joint initiative of the IMF and World Bank, has emerged as an innovative tool for detecting emerging debt related vulnerabilities in a transparent and consistent manner.

Identifying Remaining Challenges: Though there has been much progress made on realizing the potential of the Monterrey Consensus, further improvements are possible and needed in order to ensure that the global community delivers on the poverty reduction objectives embedded in the MDGs. CANZ proposes that the draft outcome document highlight issues where progress has been impeded and outline potential policy responses to mitigate their impact. Specifically, the draft outcome document should address the following issues:

- Recognition that LDCs require duty-free and quota-free market access to all developed countries, as well as those developing countries in a position to do so.
- Barriers to South-South trade remain high, and according to the World Bank, South-South liberalization of trade has the potential to deliver gains equal to those of liberalization by developed countries. Countries and communities must also strengthen efforts to enable developing countries to take advantage of the opportunities offered by the global marketplace.
- Distortions in global markets remain and developing countries have been forced to compete with heavily subsidized agricultural exports from the developed world, which deny them opportunities to expand their exports to the global market. These challenges and inequalities emphasize the need for a successful and timely conclusion of the WTO Doha Round. An ambitious outcome will need to deliver world agricultural reform, including elimination of all export subsidies; substantial reductions to, and disciplines on, trade-distorting domestic support; significant market access improvements in agriculture; provide gains in industrial goods and services, and; continue to comprehensively address the needs and concerns of developing countries.
- All partners – including bilateral donors, developing country partners, and multilateral institutions – must continue to work together to improve the effectiveness of aid. Collaboration between the UN, IMF, World Bank, regional development banks, and other multilateral and bilateral donors and organizations must continue to promote and develop coordinated country-owned development strategies. To this effect, all partners must strengthen, and make use of, the mechanisms already existing in the complex global aid architecture.
- Though debt relief has produced positive results for some developing countries, particularly some HIPC countries, support must continue to be offered to the beneficiaries of debt relief in order to improve long-term debt sustainability. It is crucial that the lending frameworks of financial institutions are sound, and that the fiscal and debt management capacity of developing countries continues to be improved. As we move forward, all partners must improve creditor coordination and transparency of future borrowing decisions to ensure that lending is done on sustainable terms. It is important that the fiscal space that has been created by debt relief initiatives is not simply taken up again by other countries' and agencies' lending programs.
- Capturing the full potential of remittances remains a challenge, though the flow of remittances across international borders is growing rapidly - The World Bank estimated in 2006 that global official remittances totalled over \$280 billion, three-quarters of which went to developing countries. Remittances play an increasing role in the financing of development in the immigrant workers' home countries. In an enabling environment, remittances can play a key role in private-sector development efforts, enabling families to receive needed capital for, for example, education, housing and small business start-ups and expansion.
- Despite the notable emphasis on good governance by both donor and developing countries, persistently high levels of corruption and weak public financial management systems remain.

Without good governance, aid and debt relief will not be effective. In order to tackle the challenges to good governance, internationally recognized mechanisms to fight against corruption, such as the UN Convention against Corruption, need to be endorsed and implemented.

- Fragile and post-conflict states merit special attention in development and continue to pose challenges. Such states are unable to provide even the most basic services for their citizens; the ability to provide such basic services, for example, security, is a condition for eradicating poverty. In order to meet the development challenges posed by fragile and post-conflict states, the international community is encouraged to ensure greater policy coherence and coordination.
- It is recognized that investing in gender equality, women's empowerment and civil society engagement has a positive impact on productivity, efficiency and sustained economic growth. Thus, it is crucial to ensure that these priorities are integral elements of Financing for Development implementation and global poverty reduction efforts.

Moving Forward: Several policy issues have emerged since Monterrey that broadly relate to financing for development and draw together specific issues from several chapters of the Consensus. Though many of these issues call for solutions that are beyond the scope of the Consensus, CANZ would suggest that the draft outcome document briefly highlight the following:

- New actors are playing an increasingly recognizable role in developing and financing initiatives. As new actors continue to expand their involvement in international financial systems, it is vital that the principles of responsible lending, good governance, debt sustainability, and sound fiscal management be upheld.
- The global food crisis and the rising cost of energy have exposed several areas for improvement in the international system. Part of the solution to food insecurity involves an increase in investment in agricultural sector in developing countries to increase production and boost productivity, particularly among small-holders. Significant improvements in market access for agricultural goods and services can help to reduce price volatility and strengthen the global supply response. Binding rules for trade facilitation could also contribute to reducing administrative delays at borders. Though these reforms alone will not entirely solve the problems posed by the global food crisis, they will help to mitigate the impact of food insecurity over the medium to long-term.
- While countries participating in the HIPC/MDRI processes have seen their external debt stocks reduced significantly, there is a risk that renewed borrowing can rapidly lead to the re-accumulation of unsustainable debt burdens. The potential of the Debt Sustainability Framework to transparently and consistently address debt-related vulnerabilities needs to be fully recognized.
- Under the United Nations Framework Convention on Climate Change (UNFCCC), developed country Parties have committed to assist developing country Parties in providing support (both technical and financial) for adaptation. The *Bali Action Plan*, agreed to by UNFCCC Parties at the UN Climate Change Conference in December 2007, recognizes adaptation as one of the key elements of a post-2012 agreement. It is the poorest of the poor, and in particular Least Developed Countries and Small Island Developing States, who will be the most affected by climate change and the least able to adapt to these changes. It is therefore imperative that developed countries continue to assist developing countries in providing support, both technical and financial, for adaptation. However, there is also a need for developing countries to mainstream climate change adaptation into their National Development Plans and Poverty Reduction Strategies in order to facilitate bilateral funding. Regional and multilateral development banks and donors also have an important role to play in ensuring adaptation considerations are incorporated into other sustainable development, poverty reduction and disaster risk reduction initiatives, and are working to this end.