

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

The United States believes the early portion of the draft outcome document should briefly reaffirm the principal goals and commitments in the Consensus in a balanced and positive fashion, using agreed language where possible. We suggest drawing from the following paragraphs of the Consensus:

- Paragraph 1 (overall goals), 6 (national ownership and international enabling environment), 8-9 (action on interconnected development challenges); 10-14 (macroeconomic policies and good governance, enabling domestic environment, human rights, the rule of law, and democracy), 17 (financial sector development), 19 (capacity building), 21-22 (foreign direct investment), 26-27 (international trade), 36 (trade capacity building), 41-43 (official development assistance), 47-49 (external debt), 52-54 (enhancing coherence and consistency), 56-57 (role of developing countries), 61-62 (broadening participation), 68 and 70 (staying engaged).

The Doha Review Conference offers an important opportunity to assess progress made since Monterrey, and the draft outcome should accordingly welcome the key economic and FfD-related developments that have occurred since 2002. There have been successes and we should recognize best practices and good results. Together, these developments demonstrate the strength and dynamism of the post-Monterrey system and the commitment to the global partnership for development. We suggest referencing the following developments:

- The high and sustained levels of economic growth in most developing countries since 2002, which have led to a substantial reduction in global poverty rates;
- The trend toward sound macroeconomic management in all regions of the developing world, and the growing size and diversification of the domestic financial systems in many countries;
- Improvements in the business and investment climates in many developing countries, which are associated with higher levels of growth, jobs, and investor returns. The World Bank/IFC's *Doing Business Report* has played an important role in cataloguing progress and encouraging improvements in this area;
- The substantial rise in foreign direct investment (FDI) flows to developing countries as a whole since 2002, and the increases in growth rates, technology transfer, human capital formation, and productivity that have resulted. FDI support for infrastructure projects in developing countries has rebounded rapidly since Monterrey, increasing more than 80 percent since 2003;
- The surge in portfolio equity flows to developing countries, which increased overall more than 15 times from 2002 to 2006, and the doubling of corporate bond issuances from developing countries as a whole from 2002 to 2005-06;
- The strong growth in exports from most developing countries since 2002, which has contributed to the high levels of GDP growth in those countries;

- The expanded participation by developing countries in the world trading system since 2002, with more developing countries joining the WTO and playing a leadership role in it;
- The expansion of the Aid for Trade process, started at the 2005 WTO Hong Kong Ministerial, beyond traditional trade-related technical assistance to include institution building, supply-side issues, and building productive capacity. Resources to the Enhanced Integrated Framework (EIF), which provides 45 LDCs with trade-related technical assistance and capacity building, have increased;
- The substantial increase in overall levels of official development assistance (ODA) since Monterrey, and the significant rise in combined ODA for Sub-Saharan Africa from G8 countries;
- The progress in improving aid effectiveness that has resulted from implementing the Paris Declaration on Aid Effectiveness, which formalizes the commitment by donors and partner countries to adopt best practices in the delivery and management of aid resources, and the adoption of the Accra Action Agenda to further that progress.
- Improvement in the debt sustainability in both low and middle-income countries. Debt servicing levels are substantially lower and some countries repaid or prepaid debt while borrowing at more competitive rates on the international capital markets.
- Initiation by 33 countries and completion by 23 countries of the Heavily Indebted Poor Country (HIPC) Initiative. To date, the HIPC Initiative is expected to lead to a \$68 billion reduction in nominal debt over time. Poverty-reducing expenditures by HIPCs that have reached the decision point have increased.
- The implementation of the Multilateral Debt Relief Initiative (MDRI) and additional debt relief from the Inter-American Development Bank, which has provided \$42 billion in additional multilateral debt relief to HIPCs that have reached the completion point;
- The Paris Club's 2003 adoption of the Evian Approach, a comprehensive framework to provide debt relief on a case-by-case basis to non-HIPC countries. Nine developing countries have benefited from debt treatments under the Evian Approach;
- The April 2008 adoption by the IMF's Board of Governors of a reform package expanding the quota and voice of dynamic emerging market and developing countries and setting out a mechanism for future quota and voice reforms. The package was approved by 175 countries representing over 92 percent of the IMF's voting power;
- The noteworthy increase in participation by developing countries in international decision making and norm setting processes since Monterrey, as evidenced by the evolution of the G20 Finance Ministers' Forum, expanded developing country participation in the World Trade Organization, the International Monetary and Finance Committee, the Basel Committee on Banking Supervision, the Heiligendamm Process, and other fora.
- The strengthening of the United Nation's leadership role in development, as evidenced by the UN General Assembly resolution 61/16 and ECOSOC's assumption of several important new development functions.

The substantial policy innovation and institutional reforms since Monterrey have contributed to a deeper understanding of best practices for both developed and developing country policy makers. The U.S. believes the draft outcome document should

reflect these best practices and lessons learned, and suggests highlighting the following issues:

- Business climate reform is a key factor for expanding domestic resources for development, and is correlated with higher growth, investment, and income. The World Bank/IFC *Doing Business Report* notes two hundred reforms - in 98 economies - were introduced between April 2006 and June 2007 alone.
- A range of tools to support private foreign investment in developing countries— with a focus on small and medium enterprises (SMEs) – have helped raise the overall level of foreign investment, and should be continued.
- Prudent debt management is essential to reduce risks, lower the overall cost of borrowing and avoid difficulties in meeting debt service payments. Grant financing is an important tool for some low-income countries which have only limited access to debt financing or for which borrowing creates an elevated risk of debt distress.
- The World Bank and IMF’s Debt Sustainability Framework has proven to be an excellent example of enhanced systemic coherence and a valuable mechanism for helping developing countries effectively manage their debt.
- The OECD Export Credit Group’s adoption of sustainable lending guidelines has operationalized the Debt Sustainability Framework for official export credits to low-income countries.
- Strong macroeconomic and structural policies can help countries overcome much of their debt problems through increased economic growth.
- Development strategies should be nationally-owned and operational, and development assistance should be aligned with the strategies. Donors should take concrete measures to harmonize their assistance with country-led priorities, coordinate closely in-country, and manage for results. Mutual accountability is essential.
- An innovative approach by some donor countries has been to target certain portions of their aid expenditures to those developing countries demonstrating a commitment to governing justly, investing in their people, and promoting economic opportunity and entrepreneurship.
- There is a proven link between trade and investment liberalization and economic growth, and trade and investment liberalization should be a priority in national development strategies.
- Trade-related assistance is a complement to trade liberalization. Donors should continue to support the integration of trade into national development strategies. The Enhanced Integrated Framework helps countries create a single, country-driven trade development plan.
- Efforts by the international financial institutions to improve their cooperation and coordination are having an impact, and should be continued.

The U.S. believes the draft outcome document should also identify areas where progress has not been as rapid as hoped, or where obstacles or constraints have impeded progress, along with suggested policy responses for the way forward. We suggest referencing the following issues:

- Despite substantial donor assistance in support of country efforts to promote good governance, weak public financial management systems and high levels of corruption continue to constrain resource mobilization and the delivery of government services, and negatively affect the investment climate, in many developing countries. Stronger efforts are also needed by some developed countries to enforce foreign bribery and anti-money laundering laws and commitments. The draft outcome document should recognize the importance of actions to implement previous commitments to the fight against corruption at all levels, including through actions which may include the establishment of an effective peer review mechanism under the UN Convention against Corruption.
- Legal and regulatory systems in many countries continue to lag behind international best practices, denying millions of people access to credit. Gaps in national legal systems, inadequate legal protection for property and contracts, and the lack of effective credit registries and collateral laws often make it prohibitively difficult to obtain credit. We suggest the draft outcome document recommit member states to eliminating these barriers to development, with support from donors.
- Progress on the Doha Round of trade negotiations must be advanced to achieve an ambitious agreement this year. A successful outcome will bring about meaningful new trade flows for agricultural products, industrial goods and services that will make all economies more competitive and more productive. All members of the WTO should contribute to a successful outcome on a basis commensurate with their economic circumstances and participation in the global trading system.
- Helping HIPCs avoid damaging litigation from creditors, both public and private, is a priority. All creditors should provide their share of debt relief as called for under the HIPC Initiative; the World Bank's Debt Reduction Facility plays an important role in facilitating the participation of commercial creditors in the HIPC Initiative. Debt management capacity needs to be strengthened further to help developing countries responsibly meet their financing needs while avoiding a renewed build-up of unsustainable debt.

A number of important new issues or policy challenges touching on financing for development have emerged since Monterrey. Several of these cut across more than one chapter of the Consensus or call for policy responses beyond the scope of the Consensus. We suggest that the draft outcome document briefly reference the following issues:

- Some post-HIPC countries in Africa have experienced new debt sustainability problems as a result of new non-concessional borrowing. All creditors to low-income countries, particularly post-HIPC countries, should be encouraged to use the guidelines provided through the Debt Sustainability Framework and adopt the principles on sustainable lending recently developed by the OECD's Export Credit Group .
- The international aid architecture has evolved substantially since Monterrey, with non-DAC donors, vertical funds, and private foundations all assuming a greater role in aid delivery. Development-related challenges have also grown more complex to include concerns with terrorism, fragility and conflict, transnational crime and illegal finance. Emerging donors have increased the overall level of assistance and can

provide unique perspectives and contributions to the development agenda. However, a more complex aid architecture and agenda places a premium on aid coordination and harmonization, and all donors should work together toward adopting international standards in reporting and delivery of development assistance. The importance of firmly owned and operational national development strategies cannot be overemphasized in this context.

- There are many, complex links between financing for development and financing of climate change mitigation and adaptation. The latter issue is the subject of a robust negotiating process under the UN Framework Convention on Climate Change (UNFCCC), and we suggest the draft outcome document limit itself to restating general principles that frame the relationship between financing for development and climate change. These could include the mainstreaming of climate change adaptation into development strategies and projects, the importance of ensuring that development investments are climate-friendly, and the importance of harnessing all sources, especially the private sector, for financing clean energy and other mitigation actions.
- The world's understanding of the importance of remittance flows has grown substantially since Monterrey. According to the World Bank's *Global Economic Prospects 2006*, remittances to middle and low income countries reached an estimated \$200 billion in 2005, almost double the volume of official development assistance. Recent research demonstrates that recipients use remittances for a mix of consumption and investment purposes, and that remittance flows tend to reduce poverty in recipient countries and increase aggregate investment and growth. The draft outcome document should accordingly encourage countries to facilitate the flow and developmental impact of remittances, including by reducing transfer costs and expanding recipients' access to financial services.
- The steep rise in international food prices is a dynamic issue, and the global response will develop significantly in the months before the Doha Review Conference, including as a result of major international conferences and meetings. Although many of the necessary policy responses will not be directly related to financing for development issues, it will be important to support broad global economic growth, and countries should maintain their course of responsible fiscal and monetary policy, progressive liberalization of trade and careful targeting of safety nets in their responses to the food crisis. As Doha draws near, it may be appropriate in the context of other global and regional measures to note the importance of concerted action that further responds to the rise in food prices by increasing agricultural productivity and linking producers to markets in developing countries, consistent with the holistic approach of the Monterrey Consensus.