

**Review of the Monterrey Consensus on Financing for Development**  
**June 18, 2008 Review Session:**  
**Civil Society and the Private Sector's Role in Development**

**U.S. Government Submission**

The 2002 Monterrey Consensus underscores civil society and the private sector's key role in development. For development to occur, governments need to achieve a stable and predictable investment climate, with respect for property rights, sound macroeconomic policies, and institutions that allow domestic and international businesses to operate efficiently, profitably, and with maximum development impact. Support for new public/private sector financing mechanisms and achieving sufficient and stable private financial flows is also needed (para. 24). Special efforts are required in 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 (para. 21).

At the same time, relevant international and regional institutions, as well as appropriate institutions in source countries, should increase their support for private foreign investment in infrastructure development and other priority areas, including projects to bridge the digital divide (para. 22), in closer coordination with the private sector (para. 46). Official Development Assistance (ODA) can be critical for improving the environment for private sector activity and thus pave the way for robust growth (para. 39).

**Monterrey Consensus— Civil Society and the Private Sector's Role in Development**

*(Key elements)*

*Governments Need*

- To mobilize private savings to sustain productive investment and increase human capacity (para. 10).
- Sound economic policies, regulatory frameworks, and public spending that encourage private initiatives and allow businesses to invest & operate efficiently and profitably (paras. 12, 15, 21).
- To promote private sector financial innovations and public-private partnerships that develop and deepen the domestic financial sector (para. 18).

*Civil Society/Private Sector Need*

- To be included in dialogue with UN/ WTO/IFIs on issues of coherence, coordination and cooperation (para. 69).
- To be actively involved in information campaign on internationally agreed upon development goals/objectives (para. 71).

Since Monterrey, important systemic initiatives have been underway in every area of the Consensus. Civil society and business representatives and leaders from around the world have been involved in the Financing for Development process from the outset and in high-level follow-up meetings, providing important inputs, expertise, and proposals reflecting their diversity and priorities.

Private sector input, in particular, reflects the increasingly predominant role of private capital flows in the developing world. It is imperative to understand business perspectives and views on key financing issues relating to domestic

resource mobilization, foreign investment, trade, external debt and other systemic concerns relating to the international financial architecture. Civil society and the private sector play an important role in holding governments accountable - for spending government resources and creating policy environments that support development.

## **Key Areas of Progress since 2002:**

*A leading accomplishment of the Monterrey Consensus is that, since 2002, most developing countries have experienced high and sustained levels of economic growth, and the private sector has been the key engine of this growth. Sound economic policies, regulatory frameworks, and public spending have encouraged private initiatives and allowed businesses to invest and operate more efficiently and profitably.*

Emerging and developing countries enjoyed sustained, 7.2 % real GDP growth from 2002-07, far outpacing advanced economies (2.4%). All regions performed well during this period, including Africa. According to UNCTAD's World Investment Report 2007, FDI inflows to developing economies in 2006 reached a record high of \$379 billion. Flows were at their highest levels in Africa and throughout much of Asia. Inflows to LDCs amounted to \$9.4 billion - the second highest level ever.

*Governments are succeeding in mobilizing private savings to sustain productive investment and increase human capacity.*

UNCTAD's September 2007 report on Domestic Resource Mobilization and Developmental States notes that economies that have focused greater attention on increasing and retaining domestic financial resources have been able to use them to fuel rapid and sustained economic growth as well as job creation. Public finance reforms, such as the introduction of Value Added Taxes (VAT) and improving collection have been successful in raising government revenues. The informal sector is an important segment of economic activity and formalizing its activities would further increase countries' development resource base and opportunities to finance the productive investments needed to sustain higher economic growth rates.

Many developing countries have adopted public-private partnerships (PPP) as a means of stimulating private investment and increasing the involvement of the private sector in major areas of their economies, to help promote sustainable economic development. Advantages of PPP for governments include private sector resource mobilization, capacity building through the use of private sector experience, access to expert skills, increased efficiency, enhanced creativity and innovation, and improved public budget balance. For the private sector, market entrance, investment security, and influence on local authorities with regard to project-related decisions can be major benefits and the driving force behind their willingness to become involved.

*The reporting of business climate reforms in the World Bank/IFC's Doing Business series, first issued in 2004, has stimulated increased attention to regulatory frameworks and other policies that impact private sector-led growth.*

Countries move up in rankings based on their number of reforms, which reflect simpler regulation and stronger protection of property rights. This attention has been magnified as donors have used the rankings as a basis for allocating assistance. For example, the U.S. Millennium Challenge Corporation (MCC) uses Business Start-Up (days and cost to

start a business) as one of its indicators for determining eligibility for assistance. The World Bank/IFC's Doing Business team reports that 80 percent of the business start-up reforms they track are directly linked to the incentive effect of MCC.

## **Lessons Learned and Best Practices**

Civil society and the private sector are essential participants in development. The United States has worked to promote their involvement both through policies and programs. Among the latter are the Global Development Alliance (GDA), through which USAID mobilizes the ideas, technologies, experience, expertise, and resources of governments, businesses and civil society by forging public-private alliances to stimulate economic growth, develop businesses and workforces, address health and environmental issues, expand access to education and technology, and promote international development.

The State Department's Global Partnership Center also builds partnerships by providing services as a clearinghouse for public-private partnership information; building strategic connections with private partners and U.S. Government programs; sharing best practices in partnership design and evaluation; and brokering partnerships through a replicable process that can serve as an example.

Similarly, MCC's Private Sector Initiatives team seeks to increase private sector activity and investment in MCC-eligible countries. Encouraging private sector linkages to MCC programs supports sustainable economic growth. Working with businesses, business associations, and foundations, MCC seeks to:

- Create innovative and collaborative mechanisms to leverage MCC investments through private sector partnerships;
- Increase private sector investment and trade opportunities produced by MCC investments;
- Generate opportunities for firms to leverage their corporate social responsibility funds.

The Overseas Private Investment Corporation (OPIC) fosters economic development in low income countries by providing project financing, direct loans and loan guaranties, and political risk insurance to eligible U.S. private investors. In addition, OPIC provides support to independently managed private-equity funds.

The U.S. Trade and Development Agency (USTDA) has, as a key component of its mission, to strengthen public-private partnerships in developing and middle-income countries to advance important development objectives. The success of USTDA programs is due in large part to the dedication of host country project sponsors with whom the agency works to use USTDA assistance effectively. USTDA provides grant funding for planning of projects that support development of modern infrastructure and an open trading system. USTDA development assistance has always involved building partnerships between U.S. companies and overseas project sponsors (both public and private) to bring proven private sector solutions to development challenges.

## Remaining Challenges and Emerging Issues:

1. Trade and investment are still impeded by barriers. A successful outcome to the WTO Doha Round will reduce and bind tariffs at lower rates which guarantee investors that input costs for manufacturing and production will remain constant and low.
2. UNCTAD's 2007 report on Economic Development in Africa finds that private savings in African countries are rarely in the form of assets that can be easily transformed into productive investments, mostly because of the weakness of the formal financial sector. The United States is addressing this through a series of initiatives; see Tab 2 (Current USG Initiatives with African Financial Sector Components).
3. The UNCTAD report also suggests that tax revenues, a major source of domestic financial resources, remain relatively low due partly to administrative and technical difficulties in tax collection. Inefficient tax administrations also lead to large leakages.
4. Meanwhile, FDI remains concentrated: in 2006, the top 12 recipients, whose share of the combined GDP of developing countries was about 60%, accounted for 70% of all inflows to developing countries. More economic growth needs to be generated by internally integrated economies by strengthening linkages between rural and urban business activities, and between different economic sectors. Sectoral integration, in turn, spurs product diversification and economic transformation. That can mean greater output growth and more savings, leading to increased investment which sustains the process of economic growth. One step towards internal integration is to address market failures plaguing low income economies, particularly those relating to poor infrastructure. Strategic allocation of investment to sectors with the strongest linkages to the rest of the economy can create more jobs and generate growth that benefits larger proportions of populations in low income countries.
5. There remains a large unfinished agenda for research into what regulation constitutes binding constraints, what package of reforms is most effective and how these issues are shaped by the country context. The Doing Business indicators provide empirical data that may improve understanding of these issues.
6. Developing countries need better, rather than less, government. Building government institutions is a learning-by-doing process, leading to the robust institutions required to push development forward. Civil society and the private sector should play a central role in this process.

**Fact Sheet: U.S. Support for  
Private Sector and Civil Society in Financing for Development**

Since 2002, the United States has significantly increased assistance aimed at helping the private sector and civil society in developing countries. A major avenue is trade-related assistance, of which the U.S. has more than doubled annual grants since 2002, resulting in a total of nearly \$6.5 billion. More important than the volume of this commitment, U.S. assistance is delivered by supporting partner country ownership, promoting best practices to improve aid effectiveness, and leveraging private resources. In particular:

- By promoting reforms to improve the business enabling environment, including access to finance, the U.S. assists developing countries in expanding opportunities for the private sector to succeed.
- The U.S. Millennium Challenge Corporation (MCC) has committed more than \$3.2 billion in trade-related assistance. MCC projects include significant infrastructure investments. These programs use development frameworks and program designs that are initiated and implemented by developing countries and ensure participation by stakeholders, including civil society and private sector. In most cases, civil society and private sector are part of the managing board for the MCC Compact with the partner government, and in all cases, they participate in a consultative process that runs from Compact program development through implementation.
- USAID has field operations in more than 70 countries and operates a full range of trade-related assistance, from agricultural development to building productive capacity and supportive economic and regulatory environments. The U.S. Trade and Development Agency (USTDA) also provides trade capacity-building assistance to support sound regulatory environments to facilitate trade.
- Recognizing that public-private alliances multiply the impact of official development assistance, the United States has engaged the private sector in development partnerships. Through the Global Development Alliance (GDA), USAID leverages additional financing for development through partnerships with governments, businesses, foundations, and other non-governmental organizations. Since 2001, USAID has cultivated more than 680 alliances with over 1,700 partners, leveraging more than \$9 billion in combined public and private resources for development.
- The State Department's Global Partnership Center (GPC) builds and stewards multi-sector partnerships with businesses, NGOs, foundations, academic institutions and others through a replicable process and sharing of lessons learned and best practices. To date, 162 partnerships are focused on promoting economic growth and prosperity.
- USG democratic reform programs give high priority to civil society, independent media, rule of law, and human rights. USAID's civil society programs have strengthened civil society support centers which provide training, grants, legal and project consultancies, information support, and internet access to local advocates.

## Current USG Initiatives with African Financial Sector Components

I. The **Africa Global Competitiveness Initiative (AGCI)** is expected to provide \$200 million of additional resources in FY 2006-10 to expand African trade with the United States under AGOA, with other international trading partners, and regionally within Africa; and to promote the export competitiveness of African countries. Building on the successes of the Trade for African Development and Enterprise (TRADE) Initiative (2001-05), the AGCI has four strategic objectives:

- ▶ Improve the policy, regulatory, and enforcement environment for private sector-led trade and investment;
- ▶ Improve the market knowledge, skills, and abilities of private sector enterprises;
- ▶ Increase access to financial services for trade and investment; and
- ▶ Facilitate investments in infrastructure.

AGCI recognized the importance of building the capacity and efficiency of the **financial sector** as a pre-requisite for trade capacity building, with \$31 million for AGCI's Financial Sector Component. This focuses on five areas critical to financial sector efficiency:

- (1) Development of credit bureaus to enable the use of reputational collateral – particularly important where the legal system does not adequately support loan recovery.
- (2) Expansion of access to longer-term finance, important to housing, plant and equipment finance, with two approaches:
  - a. Development of capital markets supported by the U.S Securities & Exchange Commission (SEC); and
  - b. Improving the certainty of the recoverable value of real estate as collateral, using the International Real Property Foundation to develop real estate market infrastructure.
- (3) Improving potential borrowers' capacity to document debt service capacity through strengthened accounting by supporting the African Focus Group on Accounting Reform to standardize training and certification.
- (4) Strengthening regulation and supervision of financial markets by:
  - a. Providing USAID's off-site surveillance software to enable bank supervisors to expand their capacity for market surveillance.
  - b. Expansion of engagement of the U.S. Federal Deposit Insurance Corporation (FDIC) beyond deposit insurance to include partnering with African training facilities on bank examination, off-site, and problem bank resolution.
- (5) Strengthen payment systems through development of the legal and regulatory environment for cell phone based mobile banking and the related backbone for interoperability and cross border transactions.

II. The U.S. announced the **Africa Financial Sector Initiative (AFSI)** at the June 2007 G-8 Summit to strengthen financial markets, mobilize domestic and foreign investment, and help spur job creation and economic growth.

**AFSI** contains three components:

- a. Expansion of the U.S. Treasury's Office of Technical Assistance (OTA) support for central banking and treasury operations in Africa.
- b. Additional Overseas Private Investment Corp. (OPIC) Africa investment funds, already under development, designed to bring new financial instruments to the continent, such as mezzanine and convertible debt. Between the successful African Capital Markets Funds call for participants and the current call for the African Social Development Funds (with its focus on small and medium-sized enterprises), these efforts could leverage more than *two billion dollars* in additional private investment over the intermediate term.
- c. Two USAID activities already incorporated in AGCI.

III. President Bush's **African Mortgage Market Initiative**, which he announced in Abuja, Nigeria in 2003, called for the US government to assist African countries develop mortgage markets.

The rationale for this focus on mortgage markets is compelling. Development of robust mortgage markets results in increased wealth and welfare for households. Development also deepens retail banking and helps create local capital markets.

In developed countries such as the United States, the housing sector and all related sectors contribute over 25% to GDP. USAID and OPIC have a number of active projects underway in this important sector, including mortgage programs in Ghana and Zambia, and others in process in Nigeria, Kenya and other African countries.

IV. The **African Growth and Opportunity Act (AGOA)** was signed into law on May 18, 2000 as Title 1 of The Trade and Development Act of 2000. In 2004, the U.S. Congress extended AGOA to 2015.

The Act offers tangible incentives for African countries to continue their efforts to open their economies and build free markets and is one of our most important tools for promoting sustainable growth. Currently, 40 countries are eligible for AGOA benefits. Two-way trade between the United States and eligible African economies has increased from \$31 billion in 2003 to *\$82 billion in 2007*.

