

Informal Summary of General Assembly Review Session 1
14 February 2008

**Chapter I of the Monterrey Consensus,
"Mobilizing domestic financial resources for development"**

I. Introduction

1. The preparatory process of the Follow-up International Conference to Review the Implementation of the Monterrey Consensus (Doha, Qatar, from 29 November to 2 December 2008) was launched on 14 February 2008 with a Review Session on Chapter I of the Monterrey Consensus, "Mobilizing domestic financial resources for development". The two Facilitators of the preparatory process, Ambassador Maged A. Abdelaziz of Egypt and Ambassador Johan L. Løvold of Norway, chaired the meeting.

2. At the opening of the meeting, Ambassador Abdelaziz read out the opening remarks of the President of the General Assembly, Dr. Srgjan Kerim. Mr. Jomo Kwame Sundaram, Assistant Secretary-General for Economic Development, Department of Economic and Social Affairs presented the introductory remarks of Mr. Sha Zukang, Under-Secretary-General, Department of Economic and Social Affairs. The statements were followed by an initial panel discussion and an interactive dialogue by all stakeholders. Panel presentations were made by Mr. Nelson Barbosa Filho, Deputy Secretary of Economics, Ministry of Finance, Brazil; Mr. Carlos Braga, Director, Department for Economic Management and Debt Reduction, World Bank; Ms. Nilufer Cagatay, Professor of Economics, University of Utah, USA; Mr. Mushtaq Khan, Professor of Economics, School of Oriental and African Studies, University of London, UK; and Mr. John Sullivan, Executive Director, Center for International Private Enterprise, USA. (The views of the panelists in response to questions from the floor are also included in the section II - Panel presentations). After the panel presentations, a policy discussion took place among participants, including representatives of governments, as well as institutional and non-institutional stakeholders.

3. In his opening statement, the President of the General Assembly underlined the critical role of the Monterrey Consensus in forging a global partnership for development and achieving the Millennium Development Goals. Even as growth prospects have improved in developing countries, inequality between and within countries was still rising. Moreover, the recent financial turmoil could reduce demand in developed countries with significant spillover effects into emerging markets and developing countries. It was therefore crucial to promote equitable growth that leads to human development and supports opportunities and benefits for all. Calling climate change a major threat to long-term prosperity, the President underlined that the Financing for Development process had a special responsibility to support mitigation and adaptation efforts of member states.

4. The Under Secretary-General of DESA underlined that in the Monterrey Consensus countries reaffirmed the primary responsibility of developing countries to mobilize their domestic resources for development. Developed countries should be active partners in the development process. While many developing countries had improved their macroeconomic management, further regulatory and legal reforms were needed to enable the business sector. Private capital flows played an important role in supplementing developing countries' domestic resources, yet the overall development impact of flows was limited by the concentration in a dozen fast-growing emerging markets. Increased efforts were needed to promote the reach and the development impact of foreign direct investment. In concluding, the Under Secretary-General emphasized that the current international financial turmoil further underscored the need for a robust global partnership for development.

II. Panel presentations

Role of government, governance and the growth imperative.

5. It is important for governments to have a vision of sustainable and inclusive development. A national development strategy identifying main objectives and policy orientation is necessary to make progress toward this vision. Such a strategy is the basis of good policy management. Economic growth should be one of the main objectives since it is a sine qua non of sustainable development. Since 2002, developing countries have made important progress in many areas of domestic resource mobilization and economic growth has accelerated.

6. Partnership as emphasized in the Monterrey Consensus is critical to supporting and facilitating development. A sound international economic environment is also essential. National ownership of policies is crucial for effective development management. Cooperation policies should consider streamlining conditionalities. Policy space is a key factor in the promotion of sustained economic growth.

7. A market-friendly environment will encourage private economic activity and promote growth but will not necessarily address income inequality. Government has a fundamental role in addressing market failure and ensuring an equitable income distribution. It should also address the issue of corporate governance to ensure conditions that attract investment and facilitate the survival of firms.

8. Increasing public investment in infrastructure and services for the poor is essential to support sustained and equitable growth. Sound public investment will pay for itself in the future.

9. Mobilization of private and public domestic resources is often constrained by institutional and political weaknesses in developing countries; this is a governance problem. Good governance at the international level is also critical. There is increasing consensus on the elements of good governance at the national level: participatory democracy, effective rule of law, gender equality, stable property rights and absence of

corruption. If such conditions are realized, individuals will feel confident to save and businesses to invest, and people will be served by an accountable government promoting social justice and providing for the common good.

10. In most developing countries, the realization of such conditions will require significant time, considerable financial resources and enormous political effort. For example, adequate consolidation of property rights requires not just a commitment from government but also the allocation of resources on enforcement, arbitration, protection and conflict resolution. This should not imply abandoning an ambitious agenda for institutional reform. Rather, it implies a pragmatic, selective approach that yields an impact on resource mobilization and efficiency of investment in the near future. There is historical evidence that this path had been taken by economies that were developing successfully.

11. A viable strategy for governance reform should identify narrowly defined and feasible areas and scale up results and should be linked to the national development strategy. These areas may differ among countries because the initial conditions and dominant market failures are different, as are their institutional capacities. One important potential area is the building of risk-sharing institutions. Another is anti-corruption strategies which should similarly focus on a few narrowly defined aspects that affect the implementation of critical national development policies and programmes.

12. Technical assistance in governance reform and institutional building is needed in most developing countries, but particularly in LDCs, LLDCs and SIDSs as well as countries emerging from conflict. International cooperation in support of pro-poor policies in low-income countries is important as well as in middle-income countries with large pockets of poverty.

13. Countries with small economies face a size constraint on growth and can benefit from regional cooperation in trade and investment.

Macroeconomic objectives and policies.

14. Sound macroeconomic policy should promote growth and employment, improve income distribution and enhance resilience to shocks. Macroeconomic policy should be sound, solid and flexible and adapt to long-term structural changes that are taking place in developing countries. It should also include counter-cyclical elements to counter short-run fluctuations. Two important elements of employment objectives are full employment of men and women and sufficient opportunities for decent work.

15. As low and stable inflation is a public good, monetary policies should be geared to this target. But there are many paths to low inflation. While high inflation has the potential to degenerate into hyperinflation and should be avoided, too low short-run inflation targets can lock the economy into a low growth path. Therefore, it is important to tune the speed of convergence to low inflation.

16. The amount of capital flight – legal and illegal outflows - from some developing countries is staggering. This might signal a weakness in macroeconomic policies. Capital flight is often a result of poor governance, lack of confidence in the national economic stability or more attractive investment opportunities elsewhere. Countries have to weigh whether removing restrictions to capital flows will aggravate capital flight or help develop the financial system. In any case, prudential regulation is fundamental.

17. Developing countries often face a balance of payments constraint. Exchange rate policy should be flexible and pragmatic to support sustained economic growth and other development objectives.

18. In recent years, there has been more emphasis on fiscal policy space which can be increased through mobilization of domestic revenue, more productive investments, improving expenditure efficiency and increased external aid. In many low-income countries it has been a major challenge to replace import tariffs with equivalent tax revenues.

19. A key objective of fiscal policy should be sustained economic growth which requires the mobilization of fiscal revenues in a sustainable manner. There is scope in most developing countries to increase tax revenue through effective tax collection, progressive tax rates, modernization of tax legislation and broadening of the tax base. Perceived accountability of national and local governments should be enhanced through the linking of tax collection and service delivery. Lessons from some countries show that some reduction in tax rates can increase compliance and simplification of the tax system can increase coverage. Mobilization can also be strengthened by more effective expenditures and sound debt management. Cautious management of government revenues from exploitation of natural resources is important as is insuring a fair share of commodity revenue flows.

Social policies, enhancing the domestic financial system and entrepreneurship.

20. The Monterrey Consensus commits to a holistic approach to people-centred development. Mobilization of human resources is important in achieving sustainable development. The qualification of the labour force is a key consideration of investors. Since to a significant extent the brain-drain is a result of “pull” factors, cooperation is necessary to counter this flow of skilled workers from developing countries and to create better domestic opportunities.

21. Gender inequalities persist in labour markets, credit markets and distribution of assets. The Monterrey Consensus needs to be strengthened regarding gender equality issues, giving more specificity to the issues included. There needs to be a better understanding of the role of women in development, moving beyond their roles as caregivers and labourers. Macroeconomic policies should be more coherent with other policies in terms of gender equality. Policies should go beyond gender budgeting and take into account tax issues, business cycles, employment and decent work for all and the unpaid “care economy”. Reforms should also address the bias against women in property

rights. In social protection policies, it is important to consider family allowance policies privileging the mother.

22. Entrepreneurship is the basis of a dynamic economy. It is important to focus on the foundations of entrepreneurship. There must be incentives for creating and doing business. There should be public-private dialogue to establish and expand family-owned, small and medium enterprises. Important areas of reform include: strengthening corporate governance, anti-corruption measures, including principles of transparency and accountability, increasing the profitability of doing business and simplifying procedures for establishing new businesses. Development of the informal sector should also be targeted.

23. National development banks can address three areas of market failure in the financial sector of developing countries: the insufficiency of long-term finance, shortage of infrastructure investment and financing of small and medium-size enterprises. Better access to finance for small and medium-size enterprises is vital to development, including microfinance providers that serve women and small rural enterprises and households; hence, the importance of policies promoting an inclusive financial sector.

24. Remittances constitute a growing flow of resources to developing countries. This is opening new opportunities in local areas benefiting from such flows for developing the banking sector and new income-generating activities.

III. Policy deliberations

Review of progress and key strategic considerations.

25. Many representatives expressed satisfaction and appreciation for the panel presentations and said that the commitments outlined in the Monterrey Consensus reflected the critical need of enhancing the international economic environment and the implementation of development policies in key areas by developing countries. The key areas included macroeconomic policy-reforms, strengthened macro-economic and fiscal management, reform of legal and regulatory systems, increased investments in economic and social infrastructure, the development of the financial system – including an expanded access to micro, small and medium size enterprises, increasing public and private savings, strengthening governance, and intensifying the fight against corruption. There was a convergence of views that developing countries had made significant progress in most of these areas. Such progress had been clearly reflected in annual reports of the major institutional stakeholders as well as in the reviews and analyses of scholars and NGOs.

26. Several speakers stressed that that the Monterrey Consensus was the foundation of the global partnership to achieve the internationally agreed development goals, including the Millennium Development Goals. While external resource flows had an important supporting role to play, sustained long-term development could only be achieved through successful mobilization of domestic resources. There had been positive

developments since the adoption of the Monterrey Consensus. Economic growth was accelerating and developing economies were achieving increased stability partly in response to an improved mobilization of domestic resources. Yet, in some regions growth acceleration had not always resulted in the improvement of human development indicators, and had not been inclusive or pro-poor.

27. Several participants highlighted that creating a positive investment climate was one of the most pressing tasks facing development. This required action in strategic areas: the national financial and institutional systems – particularly the ones that encourage entrepreneurial activity, public-private partnerships, national and local governance, human resource development, macroeconomic policies, the economic empowerment of women, and the incorporation of small scale producers into the broader economy. Some delegates stated that the private sector should take the lead in achieving sustainable growth and mobilizing domestic resources. In this regard, it was important to lower excessive costs and streamline bureaucratic procedures to register new business, formalize informal activities and expand existing firms. Some speakers stressed that implementing reforms to eliminate bureaucratic red tape, as well as putting in place and enforcing laws against corruption, should be a priority in many countries.

28. Numerous delegates pointed out that the efforts of all partners, including multilateral institutions, should encompass all the actions outlined in the Monterrey Consensus. Such actions were mutually reinforcing and a comprehensive approach would optimize the synergies between domestic resource mobilization, aid, international trade, private capital flows, and debt relief. Several speakers said that recent progress had made developing countries more resilient. They were better prepared to cope with the global deceleration of growth due to the current financial turmoil.

29. A large number of speakers pointed out that in key areas, where improvements in the international economic environment were necessary, progress was lagging: the Doha Development Round of Trade Negotiations had barely advanced; global financial markets remained volatile; and the outflow of highly trained and skilled persons from developing countries persisted, in part as many developed countries were systematically recruiting them while restricting the movement of the semi-skilled and unskilled workers. Policy space remained constrained and conditionalities remained strong despite the general view that they were counter productive. Moreover, progress had been insufficient in addressing the special needs of Africa, the Least Developed Countries, Small Island Developing States, and Land Locked Developing Countries and in confronting the development challenges of countries emerging from conflict.

30. In this regard, according to a number of participants, LDCs and SIDSs remained very vulnerable. For these countries, additional technical assistance support was necessary and ODA and debt relief continued to be required to bridge their savings-investment gap. Also for them, as well as for LLDCs, more external resources were crucial for infrastructure investments - a critical ingredient of sustained development. In addition, several representatives noted the special needs of countries transitioning to a market economy, which required support for the development of their legal systems.

31. Poverty eradication, according to many participants, was a crucial challenge for developing countries and the efforts to combat poverty required international support. Assistance was essential for LDCs. Yet, it was indicated that such support was also important for middle-income countries to complement their efforts in fighting poverty and inequity. Also, it was pointed out that climate change posed new challenges and this should be taken into account in the Financing for Development process.

32. A number of representatives indicated that on the road to Doha there should be more emphasis on analysis of successful efforts and lessons learned. A judicious incorporation of best practices in different policy areas could make a significant contribution to policy implementation and development. Economic freedom and investing in people fostered the mobilization of domestic resources. Some pointed out the importance of promoting and consolidating social cohesion. Others stressed that natural resources should be used to serve national interests. There were convergent views on the adequacy of no one-size fits all approach and that national ownership was critical for effective policy management and sustained development. There was also convergence on the need for small-size economies and particularly SIDSs to promote greater economic integration.

Macroeconomic policies and the mobilization of public revenues.

33. In the view of many representatives the mobilization of public resources and adequate fiscal policies were critical for sustained development. The link between the national development strategy and the reality of budget allocations were often in need of strengthening in developing countries. In order to fund essential public services and investments, it was important to enhance public revenues and use national resources effectively. There was considerable scope in many developing countries to raise additional revenues. This required a more effective and just tax system, including an efficient tax administration.

34. A large number of representatives noted the close link between improving governance and increasing the tax base and revenues. The willingness of taxpayers to pay taxes derives from peoples' trust in the ability of Government to meeting their needs. This was at the root of public accountability and required a transparent budgetary process, as well as transparent public finance management. The agenda for public finance and administration reform was ample, including areas such as public expenditure control, budgeting process, transparency in procurement, civil service reform, and tax administration. In this regard, strengthening international cooperation in tax matters, particularly through the UN, could be crucial.

35. Some participants pointed out the need for developing countries to further explore how monetary and fiscal policies could directly stimulate capital accumulation and economic growth. It was stated that in many developing countries it was important to scale-up public investments; in fact, the positive impact of public investment on competitiveness was often ignored. In a context where public expenditures are fully

covered by current revenues government could borrow to invest as long as public debt is sustainable and balanced over the course of the economic cycle.

36. Many representatives stated that trade liberalization and tax competition, regarding foreign direct investments, had eroded the tax base. Revenues from tariffs could not be easily substituted by new or higher taxes, particularly in LDCs. It was important, therefore, that LDC's development partners assist such countries in their trade and investment negotiations to prevent further erosion of their tax base. It was underscored that it was also important to strengthen multilateral cooperation on tax issues through the consolidation of the UN Committee of Experts on International Cooperation in Tax Matters. For countries rich in natural resources, the commodity boom had led to considerable higher revenues. Given the fact that some of these natural resources could eventually be exhausted and that the high prices might end, it was important for governments to explore how to retain a greater share of the commodity rents and to channel these rents to a stabilization fund or to investments that could help to attain a more sustainable development path.

Human resource development and financial sector deepening.

37. Numerous representatives focused on investment in human capital as paramount to sustained development and the eradication of poverty. Strengthening human resources required enhanced, non-discriminatory education and health policies, basic infrastructure – particularly targeting the poor, better social protection, and active labour market policies leading to decent work for all. Further efforts were necessary in all these areas.

38. Many participants called for gender equality and the empowerment of women. Their contribution to development could increase markedly and benefit all; yet, the Monterrey Consensus had not paid sufficient attention to these issues. The women's role was critical in formulating and implementing poverty eradication policies. The gender aspects of development should be considered beyond the social sectors and encompass other policy areas such as economic growth, migration, the environment, peace building, and reconstruction.

39. The development of the domestic financial sector, according to many representatives, was of the utmost importance in numerous developing countries. It was central to the mobilization of domestic financial resources. A diversified, well regulated, inclusive domestic financial system that promotes and captures savings - and channels them to sound projects and ideas - was a key pillar to sustain development and a dynamic private sector. It was essential to provide adequate financial services, including long-term funding, to small and medium-size enterprises. Yet, new efforts by governments in this area should complement rather than compete with private financial activities. Some participants pointed out that national development banks could be instrumental in providing long-term capital for productive activities and financial resources for infrastructure.

40. A number of representatives stressed that widespread access to finance – developing an inclusive financial sector that provides a wide variety of financial products- was vital. It was essential to ensure financial services that reach women, rural areas and the poor. Micro-credit was important for micro-entreprises and small family firms. For many female entrepreneurs micro-credit was crucial to their success. Many speakers emphasized the importance of enhancing national and international efforts towards strengthening micro finance.

41. Many participants referred to the increasing importance of remittances for a substantial number of countries. The amount of these private flows continued to increase significantly. Additional measures were necessary to lower the cost of transferring such flows. Moreover, countries in which such flows originate could explore ways to assist migrants in increasing them. It was also noted that remittances could provide an opportunity at the local level to promote development and banking activities.

42. Various speakers pointed out that capital flight represented a major loss of resources for developing countries. According to some estimates annual amounts of legal and illegal outflows reached hundreds of billion of dollars. The factors that triggered such flows were several: inadequate macroeconomic policies, lack of trust in the national economy, funds obtained through illegal or criminal operations, deficient tax administration capacity, lack of transparency of cross border flows and insufficient international tax cooperation. It was important to increase efforts in all these areas in a way that addresses these factors and reduces the opportunities and incentives for such capital flight. A number of representatives stated that a global partnership was required to prevent transfer abroad of corrupt assets as well as to help their recovery. It was also important that all countries become parties to the United Nations Convention against Corruption and ensure that it is effectively implemented.