The Monterrey Consensus: brief review of progress

Cristian Ossa *

August 2004

* The author was formerly Director of the Division of Development Policy Analysis in the Department of Economic and Social Affairs of the United Nations. He has participated in 2003 and 2004 as a consultant in the team of the Financing for Development Office in charge of the preparation of reports on the Follow-up to the Monterrey Consensus to the United Nations General Assembly and the Economic and Social Council. The material presented here partly reflects that work. Yet, the opinions expressed in this note reflect his personal views and are not necessarily those of the United Nations Secretariat.

The Monterrey Consensus: brief review of progress

More than two years after the adoption of the Monterrey Consensus (MC), progress has been scanty. The MC, which addresses key issues in the agenda of the G-24, contains a set of principles, guidelines, policies and actions in six major areas: mobilization of domestic resources, mobilization of international private resources for development, international trade, international financial and technical cooperation for development, external debt and systemic issues. In some areas such as mobilization of domestic resources and financial and technical cooperation for development there has been a measure of progress. Yet in other areas, progress has been limited or non-existent.

The Monterrey Consensus established a process for review and appraisal of progress which includes the key stakeholders. To a large extent the nature and reach of that process was described in a previous paper.[1] Therefore, this note will focus on assessing progress or lack thereof in the six major areas mentioned above.[2] It covers mainly the evolution since early 2003 up to mid-2004.

Systemic issues

The MC recognizes the urgent need to enhance coherence, governance and consistency of the international monetary financial and trading systems. It underlines the importance to continue improving global economic governance and enhance coordination among international institutions and — at the national level — among all relevant ministries and institutions. It calls for sustaining and making more transparent the efforts to reform the international financial architecture. It emphasizes that strong coordination of macroeconomic policies among the leading industrial countries is critical to greater global economic stability, reduced exchange rate volatility and for enhanced and predictable financial flows to other countries. It requests the IMF and other multilateral financial institutions to continue to give high priority to the identification and prevention of potential crises and to strengthening the

[1] See: *Monitoring the Monterrey Consensus*. Paper prepared for the XVI Technical Meeting of the Intergovernmental Group of 24 in Port of Spain, 13-14 February 2003.

[2] Seen from the perspective of developing countries, the main interest lies in international cooperation issues. Thus, this review reverses the order in which the six areas are addressed in the MC.

underpinning of international financial stability, stressing the need for the Fund to strengthen its surveillance activities of all economies with particular attention to short-term capital flows.

The MC states that it is essential to ensure the effective and equitable participation of developing countries in the formulation of financial standards and codes, and to ensure implementation on a voluntary and progressive basis. Noting the impact of financial crises and the risk of contagion, the MC underlines the need to ensure that the international financial institutions, including the IMF, have a viable array of financial facilities and resources to respond in a timely and appropriate way**.** It calls for keeping under review the need for SDR allocations and emphasizes the need to enhance the stabilization role of regional and sub-regional reserve funds, swap arrangements and similar mechanisms. It welcomes the consideration by all relevant stakeholders of an international debt workout mechanism to restructure unsustainable debt in a timely, fair and efficient manner. It underlines the need to broaden and strengthen the participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting and welcomes further actions to help these countries to build their capacity to participate effectively in multilateral forums. Within the mandate of the respective institutions it encourages the IMF, the World Bank and WTO to continue to enhance participation of all developing countries and countries with economies in transition in their decision-making. It also encourages ad-hoc groupings that make policy recommendations with global implications to enhance their outreach to non-member countries.

The MC also calls for strengthening international tax cooperation giving special attention to developing countries and countries with economies in transition and thorough enhanced dialogue among national tax authorities and relevant multilateral bodies and regional organizations. In the MC countries commit themselves to negotiating and finalizing as soon as possible a United Nations convention against corruption in all its aspects — including the repatriation of funds illicitly acquired — and promoting stronger cooperation to eliminate money laundering and suppress the financing of terrorism.

In the current decade, coordination among multilateral institutions has intensified. The United Nations and the Bretton Woods Institutions are working better together. Formal meetings among these institutions, as well as increased interaction at the political and technical level, are leading to improved coordination and more effective collaboration. Similarly coordination of the above institutions with WTO has expanded. Yet, coordination of policies among large industrial countries has not improved and multilateral surveillance in some of these countries has proved ineffective. Fiscal deficits remain high in France and Germany, above the Stability and Growth Pact likely for a third year in a row in 2004. The fiscal and current account

deficits in the United States increased markedly in 2003 and have continued to grow in 2004, reaching levels above five per cent of GNI.

Currently the United States economy is absorbing resources from the rest of the world at the tune of 600 billion dollars annually. While this is unsustainable and feeds uncertainty, it is difficult to predict when and how these major imbalances will unwind or whether the correction will be abrupt or gradual. The likely increase in interest rates in international markets and the eventual correction of the United States deficits are leading many countries to precautionary, often costly, measures. In fact, partly because of this, many developing countries are accumulating reserves well beyond traditional levels. (there are also other reasons for the unusually large reserve accumulation: the fear by policy makers that the international supply of private finance might remain volatile; a few countries are accumulating reserves to help them to maintain a competitive currency to spur exports).

In the meantime, crisis prevention and improved surveillance continue to concentrate the attention of the IMF International Monetary and Financial Committee (IMFC). In addition to the focus on macroeconomic policies, IMF surveillance has been expanded to include structural and international policies, improved transparency, and observance of various standards and codes, financial sector assessment and, in programme countries, debt sustainability analysis. Increasingly, the focus is on factors that affect financial and economic vulnerability. The IMFC has also stressed the need to sharpen surveillance in systemically and regionally important countries.[3] Under certain conditions specific country reports, hitherto restricted, are being published, thus increasing transparency.[4] The net result of the above efforts is that surveillance

[3] See: IMF, *IMFC Communique*, Dubai, September 21 2003.

[4] On the other hand, the increasing number of conditions that have accompanied Fund programmes makes their review more difficult. Because of the added complexity, almost inevitably the programme review process by the Fund becomes more subjective and opaque.

continues to influence policies in developing countries to a much greater extent than in systemically important countries.

With respect to the availability of non-concessional official resources for development, including an array of facilities to prevent crises and avoid contagion, no significant policy departure has taken place since Monterrey. Presently, net non-concessional flows (disbursements minus amortizations) of multilateral development institutions (World Bank, regional development banks and the IMF) are a trickle: barely $ 100 million. In 2002 and 2003, net bilateral non-concessional flows were negative to the tune of $ 9 billion and 12 billion respectively.[5]

While it is true that the supply of capital for those few developing countries that have access to international finance is rather elastic, virtually all developing countries also need non-concessional development finance with adequate maturity and less dependent on cyclical conditions for long-term investments in infrastructure, education and health. Despite this need, scant attention has been paid to a decisive increase in the supply of medium to long-term non-concessional official development finance.[6]

Regarding more short-term international support, the size of the IMF remains a key issue. Higher IMF quotas could help to ensure adequate IMF resources in case of simultaneous balance of payments crises in a number of countries. This will lessen the need of protracted negotiations with third parties to bring together a package for countries with urgent needs. It will reduce the possibility that third parties rather than a multilateral institution will determine the country's

---

[5] See: World Bank, *Global Development Finance 2004*.

[6] In the *IMF/World Bank Global Monitoring Report 2004*, which contains an assessment of progress toward the MDGs and of progress in meeting the commitments made at Monterrey, the subject of the availability of non-concessional official financial resources is not addressed.

adjustment requirements. Higher quotas will be in consonance with the development of international trade (at present, total IMF quotas in relation to world imports is about a tenth of what it was in 1950 and less than a third of what it was in 1970). Also a higher quota for an individual country – and its associated larger access to IMF resources – should likely improve the trade-off between finance and adjustment for the country in the eventuality of an IMF stand-by arrangement. This might be critical in certain cases since under-funded programmes tend to have less chance of success.[7] The twelfth Review of Quotas was finalized in January 2003 without any modification of quota levels. A crucial opportunity for progress was missed.

The Contingency Credit Line established in 1999 as an instrument to prevent crises was never used because its complex pre-qualification conditions and the possibility of adverse signaling to international capital markets did not make it sufficiently attractive. It elapsed in November 2003. Despite the fact that the conditions that led to its creation are still present, no substitute is in place. This constitutes a significant gap.

The IMF Compensatory Financing Facility (CFF) was established in 1963 to assist member countries cope with temporary export shortfalls caused by exogenous shocks. It was modified to include shocks affecting cereal imports, but it remains unused since 1999. The MC called for addressing its effectiveness. The Executive Board of the Fund reviewed the facility in March 2004. The review acknowledged that the empirical evidence suggests increased volatility of commodity prices over time, pointing to an increasing need to make the CFF more accessible. The review also acknowledged that increased automaticity and flexibility would lead to substantial use of the facility. Moreover, it was noted that a subsidy on the rate of charge to the

[7] See, for example: Ariel Buira, *An Analysis of IMF Conditionality* in *Challenges to the World Bank and IMF,* Wimbledon Publishing Company, London, 2003; Arjun Sengupta, *Financial Management of Globalization – IMF and Developing Countries* in *Economic and Political Weekly,* Mumbai, India, 15 January 2000.

use of CFF for low-income countries would also lead to increased use by those countries. Notwithstanding, the decision of the Board was to retain the CFF in its current form.

On the question of SDR allocations, the political and the public interest have increased notably. Two strands are being considered. One pointing to SDRs as a significant and predictable source of development finance (see section on international financial and technical cooperation for development); the other, as an important source of international liquidity for developing countries. Regarding the latter, several arguments call for a prompt resumption of SDR allocations: resources of the IMF have shrunk in relation to world imports; efficiency gains, since SDRs can be created at zero cost freeing countries from the need to run current account surpluses or to borrow at a significant cost to obtain reserves (the opportunity cost for low-income countries without access to international capital markets to obtain reserves is usually extremely high)[8]; reduction in systemic risk since SDRs would substitute for borrowed reserves which are less reliable in times of crises; it leads to a more equitable distribution of seignorage since the creation of international reserves does not benefit exclusively a limited number of high-income countries; it can be done without significantly affecting global liquidity; the instrument already exists and costs of operation are negligible. Despite the above, there has been no consideration by the Executive Board of the IMF and no steps have been taken in this field.

Regarding an enhanced participation of developing countries in economic decision-making some marginal steps have been taken in the Bretton Woods Institutions and WTO.[9] Also, the issue is in the agenda of discussions in these institutions. Yet, in the critical issue of voting power in the IMF and the World Bank there has been no change in the status quo.

---

[8] See: Jacques Polak and Peter Clark, *A New Perspective in SDR Allocations*. IMF Staff Papers.

[9] For example, strengthening the support to African Executive Directors in the Bretton Woods Institutions and increasing access to WTO negotiation discussions to all its members.

The effective participation of developing countries in economic decision-making requires equitable representation in those bodies that take the key decisions. Equitable representation bolsters legitimacy. Nonetheless, basic votes, a factor that ensured a degree of equity in IMF decisions and particularly important for African countries, has virtually lost all relevance[10]. Moreover, the relative economic size of countries has changed substantially and this is still not reflected in respective quotas and, consequently, voting power. Currently, Brazil and Mexico, both members of the G-24, and Korea have GDI and import levels significantly above some developed countries whose IMF quota is higher.[11] The status quo in the Twelfth General Review of Quotas implies an unchanged quota structure and the persistence of existing anomalies.

With respect to other issues, the convention against corruption was finalized (see section on Mobilization of domestic resources). Regarding tax cooperation, the United Nations Economic and Social Council (ECOSOC) at the initiative of developing countries is considering converting the Ad-Hoc Group of Experts on International Cooperation in Tax Matters into an intergovernmental subsidiary body of the Council. The eventual mandate of the new body would be to make recommendations to ECOSOC on international cooperation in tax matters and to keep under review UN manuals and model conventions on international tax issues in cooperation with other international and regional tax organizations. Cooperation against money laundering and to suppress the financing of terrorism has increased considerably. Largely based on the recommendations of the Financial Action Task Force on Anti-Money Laundering, the IMF and the World Bank endorsed new standards for Anti-Money Laundering and Combating the

[10] Basic votes were equally distributed among members. They represented close to 11per cent of total voting power originally. Today they represent about 2 per cent. In the meantime, the number of members of the IMF has virtually quadrupled.

[11] Brazil had imports similar to those of Australia or Switzerland and a GDI close to double that of either of those two countries in 2000. In the same year, Mexico had larger imports and a much larger GDI than Australia, Belgium or Switzerland; nonetheless it had a significantly lower IMF quota. Korea had a GDI and imports that were at least twice of those of Austria, Denmark or Norway; yet, its IMF quota was lower.

Financing of Terrorism in early 2003 and a pilot programme of assessments was launched. At its spring meeting in 2004, the IMF International Monetary and Financial Committee welcomed the progress in the pilot programme.

External debt

The Monterrey Consensus recognizes that debtors and creditors must share the responsibility for preventing and resolving unsustainable debt situations and that technical assistance in debt management and debt tracking should be strengthened. It also recognizes that debt relief and in some cases even debt cancellation might be necessary to liberate resources for attaining sustainable growth and development and that a speedy, effective and full implementation of the enhanced HIPC is critical. The MC stresses the importance of flexibility regarding the eligibility criteria. It emphasizes the need to reduce debt burdens in poor countries to sustainable levels and calls for keeping under review the computational procedures and assumptions underlying debt sustainability analysis. It also emphasizes the importance of putting in place a set of clear principles for the management and resolution of financial crises that provide for fair burden-sharing between private and private sectors and between debtors, creditors and investors. It encourages exploring innovative mechanisms to address debt problems of developing countries.

In most developing countries debt indicators (debt/exports, debt service/exports, debt/GNI) improved in 2003 and are expected to continue to improve in 2004 largely as a result of increased exports, higher prices in several primary commodities and GDP growth. Yet, the number of severely indebted low-income countries and that of severely indebted middle-income countries remains large: about 25.[12]

With five more countries (Ethiopia, Guyana, Nicaragua, Niger, and Senegal) attaining it in the first half of 2004, 13 countries have reached the Completion Point in the HIPC Initiative which was launched in 1996. By mid 2004, 14 countries had reached the Decision Point, thus qualifying for interim relief. Unless there is an extension of the Initiative, the remaining 11 countries deemed eligible, but that have not yet reached the decision point, may be excluded because of the sunset clause for the programme at the end of 2004. 8 of the 11 countries are either conflict affected or post-conflict countries. To ensure that countries reaching the Completion

[12] Severely indebted countries: countries with debt/export ratio above 2.20 or countries with debt/GDI ratio above 0.80.

Point emerge with a sustainable debt, the Boards of the IMF and the World Bank have initiated discussion on a new framework for assessing debt sustainability. This framework would consider explicitly the impact of possible internal and external stocks given the country specific conditions and to insure compatibility with the finance required to achieve the Millennium Development Goals.

The increasing use of sovereign bond issues with collective action clauses (CACs) by developing countries has been a positive development, particularly since the initial concern that the inclusion of CACs in bond issues might lead to an increase in the cost of borrowing has not materialized. But a mechanism or agreed procedure that facilitates a swift sovereign debt restructuring when required with all relevant actors involved is not yet in place. Such mechanism is crucial to avoid lengthy negotiations, and, particularly, the accumulation of social and economic costs in the debtor country. The Sovereign Debt Restructuring Mechanism (SDRM) proposed by the IMF was put on hold in April 2003. Since then, the IMF International Monetary and Financial Committee has encouraged sovereign debtors and private creditors to continue their work on a voluntary Code of Conduct. The idea is to design a comprehensive non-statutory framework to address potential debt service problems while preserving to the largest extent possible contractual arrangements. Along these lines, the G-20 has established a technical group to prepare a draft code in consultation with private sector representatives.

On the whole, on the external debt front, although there is a new emphasis on the study of conditions and policies that should ensure debt sustainability[13] and on a voluntary Code of Conduct, progress in terms of concrete actions has been wanting. Despite the large number of

[13] Debt sustainability analysis will also be part of IMF surveillance in programme countries. See: Communiqué of the IMF, International Monetary and Financial Committee, April 24, 2004.

countries severely indebted, no major policy departures to deal with this problem has taken place since the adoption of the MC.[14]

Increasing international financial and technical cooperation for development

The Monterrey Consensus urged developed countries that have not done so to make concrete efforts towards the target of 0.7 per cent of GNI as ODA to developing countries (0.15 to 0.20 per cent to least developed countries). Countries agreed on: enhanced cooperation to further improve policies and development strategies — both nationally and internationally — to enhance aid effectiveness; to harmonize operational procedures; support initiatives to untie aid; enhance the absorptive capacity and financial management of the recipient countries; enhance ownership; promote the use of ODA to leverage foreign investment and trade; improve targeting to the poor and measurement of results. They appreciated the discussion taking place to increase the concessionality of development financing including greater use of grants. They recognized the value of exploring innovative sources of finance, noting the proposal to use SDR allocations for development purposes. They called for multilateral and regional development banks to provide an adequate supply of finance to countries challenged by poverty that follow adequate policies and may lack adequate access to capital markets and, also, to mitigate the impact of excessive volatility of financial markets. They agreed to ensure that the long-term resources at the disposal of the international financial system, including regional institutions and funds, allow them to support adequately sustained development, technical assistance for capacity building, and social and environmental protection schemes.

ODA increased to $68.5 billion or 49.0 billion SDRs in 2003 from $58.3 billion or 45.0 billion SDRs recorded in 2002. The donors' effort — measured as the share of ODA to GNI - rose to 0.25 per cent from 0.23 per cent during the same period. Scattered evidence also points to an increase of ODA to least developed countries, but still remaining well below the international target for these countries. DAC projections on the basis of recent pledges point to an ODA level of $77 billion in 2006.[15] Some European countries have also recently made pledges beyond 2006

[14] The Evian Approach - which contemplates increased flexibility in dealing with debt problems of non-HIPC countries in the context of the Paris Club negotiations - was agreed in October 2003 by creditor countries for application to non-HIPC countries. It has not been applied so far.

[15] See *IMF/World Bank, Global Monitoring 2004*, Quality and Effectiveness of Aid (pp. 169-176).

which — if fully implemented — will raise the European Union ODA as a share of GNI from 0.44 per cent in 2006 to more than 0.5 per cent in 2010.[16]

While the significant growth in ODA and the fact that the share of grants has increased are certainly positive developments, the rhythm of increase is insufficient for a quantum jump in economic growth and social and health programmes in low-income countries and for achieving the target of halving poverty in all developing regions by 2015.

Since the adoption of the Monterrey Consensus, efforts to increase the effectiveness of aid, to harmonize donor policies and practices and to try to lower transactions costs have intensified.[17] Some donor countries are becoming more selective in their bilateral aid, focusing on countries with "good policies", while multilateral institutions continue to examine under what conditions aid works best. Resources for technical assistance have increased significantly. At the regional level, the Economic Commission for Africa and DAC have agreed to conduct joint Africa/OECD reviews of the impact of partner country policies on Africa's development programmes, while NEPAD is implementing Peer Review Mechanism on economic and political governance to monitor country performance, in particular, progress towards development goals.

In February 2003, fifty countries and multilateral institutions met in Rome to address enhanced harmonization of aid and improve donor coordination. The outcome was the Rome Declaration on Harmonization which, *inter alia*, led to the establishment of the DAC Working Party on Aid Effectiveness and Donor Practices in May 2003. The responsibility of the latter is to facilitate harmonization of donor practices with country strategies. The Second International

---

[16] See: European Commission, *Staff Working Document, Follow-up to the International Conference on Financing for Development: Monitoring the Barcelona Commitments*, Brussels, 15 May 2003.

[17] See: *IMF/World Bank, World Monitoring Report 2004* and Commission of the European Communities *Communication from the Commission to the Council and the European Parliament: Translating the Monterrey Consensus into Practice*. Brussels, 5 March 2004.

Roundtable on Managing for Development Results met in Marrakech, Morocco, in February 2004, discussed progress in result-oriented approaches and also focussed on strengthening country absorptive capacity and on adopting a set of core principles governing development partners in their development programmes. At its spring meeting in April 2004 the IMF/World Bank Development Committee called for strengthened effort to implement the Rome Declaration on Harmonization and the Core Principles set out in Marrakech, Morocco. It also requested a report for its fall meeting on aid effectiveness, absorptive capacity and results-based measurement mechanisms.

In sum, there have been at the bilateral and multilateral levels significant new efforts to improve aid effectiveness, increase aid harmonization and explore ways to lower transaction costs, including untying aid. Yet, the impact of new modalities is not yet clear. All these efforts have been largely donor driven with little or no consultation with potential recipients. In the meantime, although the country ownership issue is much more manifest in declarations and international negotiations, there are no decisive indicators that ownership has significantly increased. International proclamations — mostly donor driven — on a precise set of shared objectives that have to be simultaneously pursued in a definite time period in the context of a largely predetermined policy framework is constraining the formulation of national development strategies in which key objectives, sectoral priorities, policies and sequence of implementation are fully decided at the country level.[18]

Leading to the Monterrey Conference, many voices suggested the need for innovative sources to finance development, in particular, to facilitate the achievement of the many objectives

[18] In a sense, the formulation of the national development strategy can be even more constrained by a country entering trade agreements that require strict discipline in a variety of fields. See UNCTAD XI, *Sao Paolo Consensus* (para. 8), Sao Paolo, Brazil 13-18 June 2004.

set by the global United Nations Conferences and to compensate for a declining ODA trend since the early 1990s. After the adoption of the Monterrey Consensus, the search for innovative sources of finance and particularly a more exhaustive examination of existing and new proposals has intensified in many circles. The report requested by the IMF/World Bank Development Committee in April 2004 mentioned above will also include an analysis of policy options for mobilizing additional resources, including innovative mechanisms.

In the recent United Nations University WIDER study, for example, seven "innovative" sources of development finance are analyzed under various criteria.[19] But, despite the interest of many and careful analysis by academics and experts of these proposals there are no set agenda for their comprehensive consideration at the multilateral level. Notwithstanding, partly because of the initiative of the President of Brazil[20] and the finalization of the WIDER study that the United Nations Secretary-General will transmit to Member countries, it is possible that the General Assembly will agree this year to a specific consideration of these proposals in the near future. But, some individual donor countries – using different arguments - have already expressed negative views on the forthcoming proposals.

International trade as an engine for development

In the Monterrey Consensus, countries reaffirmed their "commitment to trade liberalization and to ensure that trade plays its full part in promoting economic growth, employment and development for all." They called for the implementation of the outcome of the WTO Fourth Ministerial Conference held in Doha, Qatar in November 2001. They agreed to facilitate the accession of all developing countries that apply for membership in WTO. They urged international financial institutions to continue to support projects that promote regional and sub-regional integration. They called to work towards the objective of duty-free and quota-free access in

---

[19] The study was commissioned by the United Nations Department of Economic and Social Affairs at the request of the General Assembly. It analyzes seven potential sources: global environmental taxes, tax on currency flows, creation of SDRs, International Financial Facility, increased private donations for development, global lottery and global premium bond, increased remittances from migrants. See: Policy Brief, United nations University, World Institute for Development Economics Research, *New Sources of Development Finance: Funding the Millennium Development Goals*. (www.wider.unu.edu).

[20] President Lula has invited world leaders to consider actions against hunger and poverty in a meeting to be held on 20 September in New York (eve of the opening session of the UN General Assembly). For this purpose a technical group has been set up (with experts from Brazil, Chile, France, Spain) to examine additional sources of funding, including SDR allocations, to combat hunger and poverty. The report of this group will be available in September.

developed countries for all exports of least developed countries and recognized the importance for developing countries as well as countries with economies in transition of considering reducing trade barriers among themselves. They invited multilateral and bilateral financial and development financial institutions to enhance their efforts, aided by increased resources, to facilitate the removal of supply-side constraints, to diversify exports, and to enhance competitiveness by, *inter alia*, reinforcing support for trade-related training capacity and institution building and trade-supporting services. They pointed to the need for multilateral assistance to mitigate the consequences of depressed export prices for primary commodity dependent countries, and for immediate attention to strengthen and to ensure the full and effective participation of developing countries in multilateral trade negotiations.

After the failure to make any substantial progress at the WTO Ministerial Meeting in Cancun in September 2003, the persistent deadlock in WTO negotiations was broken on 31 July 2004. At a meeting in Geneva of the WTO General Council, where many key players were represented at the Ministerial level, the 147 WTO member governments approved a package setting out frameworks for future negotiations in critical areas of the Doha Work Programme. Member governments agreed to abolish all forms of agricultural export subsidies and to make substantial reductions in trade distorting domestic support in agriculture. They agreed to tackle cotton subsidies expeditiously and ambitiously, providing an early harvest of results, particularly for African exporters. They set guidelines for opening trade in industrial products, development issues[21] and services. To facilitate trade, they also agreed to launch negotiations to set new rules streamlining trade and customs procedures. The three other Singapore issues (trade and investment, competitions policies and government procurement) were dropped. The expressed intention is to achieve tangible and timely results for developing countries in all the above areas.

The decision of the General Council is an important step forward in several areas of interest to developing countries. The most notable is the commitment to eliminate export subsidies on agricultural products and other export measures with equivalent effect[22]. Rules would be developed to ensure that food aid does not displace commercial trade. The agreement

[21] i.e. special and differential treatment, technical assistance, implementation issues and least developed countries.

[22] i.e. subsidized expert credits, special export credit guarantees and insurance programmes and other trade distorting practices.

on cotton subsidies when implemented would lead to substantial benefits to cotton producers and exporters. The fact that there is a recognition that trade preferences and eventual preference erosion should be addressed and that differential treatment in favour of developing countries is an integral element in all parts of the agricultural package, makes such package more valuable to those countries. The decisions contemplate deadlines for operationalization aspects of the Doha Work Programme, including differential treatment. The modalities on trade facilitation aim to expedite the movement, release and clearance of goods and to enhance technical assistance and capacity building.

A key development was the recognition of the principle that the extent and timing for developing countries to enter into commitments shall be related to their implementation capacities and where they lack the necessary capacity, implementation will not be required. The dropping of three of the Singapore issues allows developing countries to concentrate their negotiation efforts on the issues they consider most relevant.

Setting the playing field is not the same as concrete actions. The real work remains to be done. Apart from cotton, there are few details regarding the products subject to subsidy cuts. More important, no date has been set yet to remove export subsidies or to start cutting production subsidies. In some areas of the decision of 31 July, several countries made reservations. Also a number of countries presented their own interpretations on the road ahead as reflected in the decision. Authorities of a key European player – a major exporter and producer of agriculture products – are already making noises that could undermine the decision.

The principles, guidelines and policy measures of the MC regarding international trade were reaffirmed by the UNCTAD Ministerial meeting (UNCTAD XI) in Sao Paulo in June 2004. Trade discussions and conclusions focused on maximizing development gains from international

trade, the trading system and trade negotiations. UNCTAD XI stressed the importance of the quality as well as the quantity of trade. It emphasized that improvements in the quality of trade required increased supply capacity, competitiveness in export sectors, diversification - including in dynamic sectors, improving market access and responding to the inter-related areas of trade, finance and technology transfer.

Given the increasing share of developing countries in world trade and the fact that about two fifths of developing country trade is between themselves, a strengthened and more comprehensive global system of trade preferences (GSTP) can accelerate South-South trade. A key step in this regard was the announcement at UNCTAD XI of the agreement to launch a third round of GSTP negotiations.

Regarding technical assistance and its funding, the trend since the Doha Work Programme was adopted in November 2001 has been on the up-side. Multilateral Institutions and various bilateral donors have increased markedly the level of funding for export related activities including institution building and also - in several cases - for more effective participation in negotiations. [23]

With respect to trade in commodities, particularly assisting primary commodity exporters that experience significant fluctuation in the prices of such commodities, scant progress has taken place. The effectiveness of the IMF Compensatory Financing Facility continues to be questioned. As already mentioned, despite the increased severity of commodity price shocks, no move has taken place to make it more useable. On the other hand, the IMF has introduced the Trade

[23] According to the *IMF / World Bank Global Monitoring Report 2004*, funding for capacity building in trade doubled between 1998-2000 and 2001-2003. The strategic importance of technical assistance in this field is recognized in the European Commission Barcelona Commitments. Thus, trade related technical assistance is one of the eight priorities in those commitments. See: European Commission, *Staff Working Document – Follow-up to the International Conference on Financing for Development, Brussels 15/05/2003*

Integration Mechanism to assist developing countries whose balance of payments comes under temporary pressure due to increased competition, the loss of potential access to export markets caused by multilateral trade liberalization, or declining terms of trade due to reductions in agricultural subsidies.

Since early 2003 Armenia, the Former Yugoslav Republic of Macedonia and Nepal, which is a least developed country, have become WTO members, while 25 countries are in the accession process. In the meantime, the WTO negotiation process has become more transparent, but still a considerable amount remains to be done to enable many middle size and small size developing countries to participate effectively.[24]

Mobilization of international private resources for development

The Monterrey Consensus, besides calling for the appropriate national framework to attract long-term financial flows and foreign direct investment, also calls for relevant international and regional institutions to increase their support for foreign direct investment in infrastructure and other priority areas in developing countries and countries with economies in transition — including projects to bridge the digital divide. It emphasizes the provision of export credits, co-financing, venture capital, risk guarantees, leveraging aid resources and information on investment opportunities, particularly to increase foreign direct investment in Africa and in least developed countries, land locked countries and Small Island developing States. It urges foreign investors to take into account the developmental, social, gender and environmental implications of their undertakings. It calls for measures in source and destination countries to improve transparency and enhance information about financial flows in order to improve risk assessment, and for actions that mitigate the impact of excessive volatility of short-term capital flows.

Results obtained so far are meagre. Foreign direct investment in developing countries has not increased and remains concentrated in a dozen destination countries that absorb close to 80 per cent of the total. It declined in 2003 but is increasing in 2004. Net portfolio investment remains negative while net commercial bank lending became positive in 2003. The cost of credit

[24] It would seem that the WTO agreement on 31 July was - in the case of developing countries – largely led by a small group of developing countries (including the most populous) that had met more frequently with key developed countries. Thus, the views of many medium-size and small countries did not carry much weight. See: W. Bello and A. Kwa, *G-20 Leaders Succumb to Divide-and-rule Tactics: The Story behind the Washington's Triumph in Geneva. Focus on Global South* (www.focusweb.org).

for the large majority of developing countries with access to capital markets has declined significantly as interest rates in financial markets have come down and spreads have narrowed.

Net private financial flows to developing economies [a]

(Billions of dollars)

	2000	2001	2002	2003
Total, of which	30.4	2.7	20.5	92.5
Net foreign direct investment	149.8	164.1	112.8	102.6
Net portfolio investment	9.6	-90.8	-91.7	-75.8
Commercial bank lending and other net investment	-129.1	-70.7	-0.6	65.7

Source: *United Nations World Economic Survey 2004.*

[a] United Nations Secretariat country classification.

It cannot be argued conclusively that the overall increase in private flows in 2003 is the result of the implementation of measures advocated in the Monterrey Consensus; there is a significant cyclical component in such increase. Nor can it be argued that volatility has decreased in any significant way in 2003.

The environment needed to attract foreign private flows is much the same as that required to promote investments by domestic investors. The efforts — structural and macroeconomic policies — deployed by developing countries as described in the last section (mobilization of domestic resources) as well as the widespread increase in the rate of domestic investment in these countries in 2003 (despite the fall in FDI) indicate clearly an improved environment for foreign investors. Besides this, new free trade agreements, including regional trade agreements, increasingly contain FDI provisions.

With respect to the greater provision of export-credits, co-financing and risk guarantees at the multilateral or bilateral level, no significant change in trends has taken place. There have been increased efforts at the multilateral and bilateral levels to leverage aid resources. Yet, on the whole, as already mentioned, there has been no progress in increasing the supply of non-concessional official financial resources.

At the international level (including the World Economic Forum and the International Chamber of Commerce) and in source country institutions efforts have been increased and new initiatives have emerged to improve the provision of information to potential domestic and foreign investors, mitigate investment risks and increase private investments in infrastructure, including telecommunications. [25]

The IMF is exploring a new approach to the design of its lending programmes that would provide greater flexibility to accommodate high-quality public investment when consistent with macroeconomic stability and fiscal sustainability. It would allow commercially run public enterprises to be excluded from fiscal indicators and targets and clarifies the accounting treatment of public/private partnerships.

The World Summit on the Information Society in Geneva, Switzerland, in December 2003 agreed on a Plan of Action which recognizes the important role of the private sector in developing and diffusing information about communication technologies (ICT), for infrastructure content and applications. The financial dimensions of this Plan of Action, including foreign investment related policies, are yet to be decided.[26] Regarding efforts to increase corporate responsibility, in particular in trans-national corporations, the United Nations Global Compact

---

[25] See, for example, Business Council for the United Nations, *Summary of Expert Workshop Discussions: Mobilizing Private Sector Investment in Developing Countries,* March 23, 2004.

[26] In this respect, member countries agreed in June 2004 to tackle the financial issues in the Tunis phase of the ICT Summit which will be held in early 2005. A task force has been established to present a report with proposals on these issues before the Tunis phase of the Summit

experienced a significant growth in membership in 2003 and early 2004 and held its first "summit" in June 2004.[27]

At this stage, it is difficult to assess whether the additional efforts undertaken in this area since the Monterrey Conference imply a modest or a considerable progress. It is also too early to assess whether private flows have become less unstable or whether an intensified effort at the national and international levels (in the multilateral and development institutions and in several private sector associations) to deal with the explicit challenges and actions of the MC geared to increase foreign direct investment in low-income countries is actually leading to increased flows.

Mobilization of domestic resources

The actions in the Monterrey Consensus deemed important to increased mobilization of private and public domestic financial resources are: improved governance (effective democratic institutions); regulatory frameworks that encourage public and private initiatives; fighting corruption at all levels; sound macroeconomic policies; efficient and effective mobilization of public resources and their transparent and accountable utilization; investment in economic and social infrastructure, social services and social protection; strengthening and developing the domestic financial sector and making it more inclusive; reinforcing national efforts in capacity building.

Recent global reports[28] by different institutions as well as regional reports[29] show that, in general, developing countries have strengthened or continued their efforts in virtually all the above areas. Individual country performances vary greatly. Many countries are advancing on most fronts while a number of countries show improvement only in some policy areas. In a handful of countries, there is virtual stagnation and even retrogression in some policy areas. Still, the overall picture for developing countries is one of progress.

---

[27] See Preliminary report on the *Global Compact Leaders Summit* (**http://www.unglobalcompact.org**).

[28] See: *IMF/World Bank, Global Monitoring Report 200,. Chapter II, Developing Country Policies* and *United Nations World Economic and Social Survey 2004*

[29] Annual reports of the UN regional commissions and annual reviews of the regional development banks.

On governance issues the progress has been more marked in efforts towards more participatory approaches in consultations and decision-making. Progress in increasing transparency and accountability has been rather modest. Notwithstanding, the United Nations Convention against Corruption was adopted in October 2003 and opened for signature at the High-level Political Signing Conference held in Merida, Mexico, in December 2003. More than 110 countries have already signed the Convention. Another significant development is the work of the African Peer Review Mechanism of NEPAD that also deals with the above issues.[30]

One of the areas in which the lag between improvements in policies and results is comparatively short is the macroeconomic policy area. In this field, results as measured by inflation rates or improvements in the fiscal situation between 2002 and 2004 are quite significant. The current account balance and external debt indicators of most developing countries have also improved; yet this is only partly due to better exchange rate policies since there has been a recovery in international trade and sizable increases in several primary commodity prices.

Prudent monetary policies and greater effort to reduce fiscal deficits or consolidate a favourable fiscal position in 2003 and early 2004 were manifest in large developing economies such as in Brazil, China, Colombia, India, Indonesia, Mexico and Thailand.[31] Yet, this trend was also evident in a large number of smaller developing economies — including countries in sub-Saharan Africa.[32] Partly as a result of improved macroeconomic policies not only inflation rates decreased significantly or remained comparatively low in Africa, Asia and Latin America in 2003 and early 2004, but also national savings as a share of GDP increased in the three regions.

---

[30] See: *The Fifth Meeting of the African Peer Review Mechanism-Panel of Eminent Persons*, South Africa, Johannesburg, 29-30 April 2004.

[31] See: IMF/World Economic Outlook, April 2004. Chapter I, Economic Prospects and Policy Issues.

[32] See: ibid.

In most developing countries and countries with economies in transition, business confidence has increased, partly reflecting the improved international economic environment but also better macroeconomic management and — in a considerable number of countries — efforts to streamline or simplify the regulatory framework. Moreover, progress has been made in introducing reforms to strengthen financial supervisory frameworks, improve oversight and regulations for corporate governance and adherence to accounting and disclosure standards, particularly in middle-income countries.[33]

Also there are new attempts to devise and implement measures in many developing countries to expand and improve access to the financial system for small and medium-size enterprises, micro-enterprises, women, rural populations and the urban poor. These measures include enhancing the linkages between the formal financial sector and small-scale businesses and micro-enterprises, revision of laws and regulations regarding property and collateral to reduce barriers to lending and increased credit information.

Scattered evidence regarding structural policies in other sectors, expenditures in social programmes and related institutional reforms indicates that, in general, there were significant, although not spectacular, advances in 2003 and early 2004. On the whole, the picture that emerges is one of increased efforts towards improved policies and institutional reform and definite progress in implementation of social programmes, but also one in which much remains to be done.

The Monterrey Consensus also calls for measures to reduce the transfer costs of migrant workers' remittances and create opportunities to use them in development-oriented investments. The Inter-American Development Bank and the World Bank have intensified work in this field. In the Sea Island Summit in June 2004, the G-8 recognized explicitly the importance of lowering

[33] See: World Bank, *Global Development Finance 2004, p. 5.*

the cost of migrant remittances to their home countries and announced additional measures to reduce the transfer cost of remittances and encourage their use in development-related activities.[34]

Concluding remarks

To a significant extent developing countries are fulfilling their commitments in the Monterrey Consensus. The scorecard for developed countries is mixed. A turnaround in ODA trends has taken place. Yet, current and expected flows – on the basis of announced pledges – still reflect a large gap in relation to the resources needed to achieve the development and poverty eradication objectives of the MC. Apart from efforts to enhance information about investment opportunities and increased efforts to leverage aid, little is being done to achieve a quantum jump in foreign direct investment in low-income countries. Breaking the deadlock in international trade negotiations was a step forward, but concrete results are uncertain and have to wait for arduous negotiations in the future. Donor support for technical assistance, particularly in trade-related activities, has expanded. The share of grants in total aid has also increased. Significant steps have been taken by donors to enhance harmonization and coordination of aid. It is likely that transaction costs of aid have been reduced. But, there are few indications that actual ownership has increased: key bilateral and multilateral donors tend to insist on pre-set objectives, policy packages and time-frames that leave little room to recipient countries to design their own national development strategy in which key objectives, sectoral priorities, policies and their sequence of implementation are fully owned.

On the external debt front no significant policy departure has taken place despite the substantial number of countries that remain severely indebted. Regarding reforms of international institutions, advances are meager. The impact of multilateral surveillance in systemically

[34] See: *G-8 Action Plan: Applying Power of Entrepreneurship to the Eradication of Poverty – Facilitating Remittances to Help Families and Small Businesses*; G-8 Summit, Sea Island, Georgia, USA 9 June 2004.

important countries remains wanting. Total net flows of medium to long-term non-concessional official development finance remain negative. There have been no significant steps to reverse the situation. Regarding multilateral financial resources for crisis prevention and balance of payments support, the expiration of the Contingency Credit Line for which no substitute exists is a setback. Despite remaining unused, the opportunity to improve the Compensatory Financing Facility was missed. No change has taken place regarding SDR allocations. The issue of effective participation of developing countries in the decision-making process is now on the agenda of the Bretton Woods Institutions. Yet, no concrete steps have been taken leading to more equitable representation of developing countries in economic decision-making.

On the whole, implementation has been characterized by a number of marginal steps and scant movement in critical areas. In a recent high-level meeting in the United Nations, the Chairman of the IMF/World Bank Development Committee stated that in Monterrrey the intellectual argument for enhanced development finance and the reform of the international financial architecture had been won. The main task now is to muster the political will for a full and effective implementation.