MONITORING THE MONTERREY CONSENSUS

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Introduction

The outcome of the Conference on Financing for Development (FfD) was a turning point in international economic cooperation. The adoption of the Monterrey Consensus at the summit level on 22 March 2002 not only signaled a new partnership in international economic relations but also reaffirmed the advantages of the new approach toward consensus building taken by the international community.

The FfD process sprang from a call by many developing countries in a variety of fora for fundamental changes in international financial relations. In the UN, these countries undertook a strenuous effort, at the political and technical levels, to discuss solutions incorporating key institutions involved in global trade and finance. This yielded an agreement on principles, guidelines, policies and actions in six major areas: mobilization of domestic financial resources, mobilization of international private resources for development, international trade, international financial and technical cooperation for development, external debt and systemic issues. Most of the issues addressed had been or were still on the agenda of the G-24. Members of the Group contributed at key stages to the final draft agreement ratified in the Summit segment of the Conference as the Monterrey Consensus (MC).[1]

The process leading up to the Conference opened up new spaces for dialogue on international financial issues. The decisions at the Monterrey summit provided further legitimacy to the financing for development process. It is important to take full advantage of this opportunity by making full use of the Consensus and the commitments therein and by strengthening the link between the G-24 and G-77 as well as links with other relevant actors. These links could help provide an additional political boost to faster implementation.

This paper focuses on the monitoring of the MC. It is structured in six sections:

- *The nature of the Consensus:* contains a brief consideration of the context for the follow-up process.
- *The follow-up hitherto:* describes the follow-up process in the Bretton Woods Institutions (BWIs), the United Nations and other stakeholders, underscoring decisions taken by the

[1]Also the technical material presented to the various G-24 meetings as well as the Ministerial Communiques of the Group served as inputs for discussions and official reports used in the preparatory process, in particular, for the drafting of the “Technical notes”. Such notes were inventories of proposals prepared for the second part of the third session of the Preparatory Committee of the Conference (see document A/AC.257/27 and addendums 1-10; www.un.org/esa/ffd)

Development Committee in 2002 and resolutions of the UN General Assembly adopted in December of that year.

- *Some areas of concern regarding implementation:* briefly considers six crucial areas in which progress has not been satisfactory so far.
- *The G-24 and the next steps*: discusses possible approaches to monitoring the Consensus by the G-24.
- *Key issues in the follow-up of the Monterrey Consensus:* identifies possible themes of special interest to developing countries.
- *Conclusions* or considerations on the way forward.

The nature of the consensus

A comparatively short document, the MC has three Chapters. The first Chapter sets out the main objectives, highlights the challenges of development financing in the context of globalization and stresses the need for a holistic approach. The second Chapter identifies the "leading actions" in the six major areas mentioned above. This is the core of the Consensus. In their communiqué of 19 April 2002, the G-24 Ministers emphasized "that financial policies and instruments and the role of international financial institutions are a central part of the Consensus". The third Chapter lays down the modalities for "staying engaged".

The approach to the follow-up of the Monterrey Conference is different from that of previous global conferences. It assigns a high level institutional responsibility for the follow-up[2] and emphasizes a more pro-active approach to implementing the commitments in the Chapter on leading actions. It also calls for the vigorous participation of the Bretton Woods Institutions in these processes at the political and technical level. Their involvement already proved critical during the preparatory proceedings. Also crucial to the success of the Conference was the brisk participation of many Ministers of Finance, Governors of Central Banks and the highest senior officials of the International Monetary Fund and World Bank at Monterrey.[3]

Monterrey was largely a success because the Consensus takes a holistic approach to the issues and recognizes their interrelationship. Historically, in the field of finance, the developing countries have been most concerned with issues related to official financial flows, the external debt of developing countries, the role of the IMF, the international financial architecture and the coherence and the consistency of the international, financial and trading systems in support of development. All these issues and related policies are considered in the last three sections of the Chapter on Leading Actions.[4] Even though the focus of the Summit meeting was on principles, policies and instruments related to FfD and not on acting as a pledging conference, the European Union and the United States announced increases in allocations to their ODA aid budgets.[5] When

[2] Modifying the purpose and structure of the High Level Dialogue on strengthening international cooperation for development held every two years in the General Assembly in a way that focuses on the follow-up to the MC and related issues.
[3] There was also active involvement by the Director-General of WTO, a number of Ministers of Trade and several Ministers of Development Cooperation from donor countries.
[4] Paragraphs 39-66 of the MC.
[5] In Monterrey, the additional annual commitment of the EU was 7 billion euros and of the US 5 billion dollars. In both instances, there will be a gradual build-up to these figures to be achieved by 2005/2006.

implemented, these additional flows should reverse the downward trend in ODA since the early 1990s.

The follow-up hitherto.

The follow-up as envisaged in the MC has proceeded on various fronts. Key stakeholders have begun to translate into concrete action several of the principles and policy guidelines of the MC.[6] At the same time, reports - including those of the major stakeholders – assessing the progress to date have been prepared for consideration at various levels.

<u>The Bretton Woods Institutions</u>.[7] The 2002 Spring meetings took place shortly after the Monterrey summit. In their interventions both the IMF Managing Director and the World Bank President welcomed the MC, highlighting the importance of achieving the millennium development goals. In the Communiques of the IMFC and of the Development Committee (DC), there was strong support and endorsement of the Consensus. When addressing the meetings, Mr. Wolfenshon proposed a seven point plan for its implementation: "Monterrey has helped to put development at the center of the global agenda. The challenge now is to use the momentum of Monterrey, and to implement the agreed global development partnership, scaling up efforts on the part of developing countries and the international community. I see seven key areas for action: 1) use the PRSP process to scale up and make more effective external support to countries on governance and structural reforms; 2) ensure that existing new aid commitments are used more effectively, with better coordination and cooperation between donors and better focus on supporting policies that produce results; 3) vigorously implement the enhanced HIPC initiative to get an early and enduring resolution of the long-standing debt problems of the poorest countries; 4) take the necessary steps to make sure that the Doha Round truly becomes a development round; 5) put in place global partnership in capacity building in the priority areas of reform and institution building; 6) scale up the delivery mechanisms and financing for global public goods, specially in the fight on pandemic diseases and the sustainability of the global commons; 7) strengthen global mechanisms and governance to underpin this new global partnership."

Also a background note authored by the staff of the World Bank and the IMF, "Financing for Development – Implementing the Monterrey Consensus", was made available to participants in the Spring meetings.[8] The paper summarily reviews the FfD process and the results of the Monterrey Conference. In conclusion, it states that "overall, the results of the FfD process and Conference are quite positive". It also describes in paragraph 5 the content of the MC including the question of resource availability, institutions, systemic issues and participation by developing countries.

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[6] For example, resources for technical assistance for trade negotiations and financial sector development have increased significantly since the Monterrey Conference.

[7] Since the activities of the G-24 are closely linked to the work of the IMF and the World Bank and several representatives of the Group serve as Executive Directors or their Alternates or as their advisors in these institutions, they know well the approach and actions taken in relation to the MC. This paper, therefore, will limit itself to commenting on aspects related to the 2002 Spring meetings and the 2002 Fall meetings of the IMFC and the Development Committee (DC).

[8] DC 2002-0008 of April 12, 2002.

For the 2002 Fall meetings, the staff of the World Bank and the IMF prepared a report: "Progress Report on Implementing the Monterrey Consensus".[9] Almost half the document is devoted to developing countries' domestic actions and examining technical aspects and progress in efforts towards achieving the millennium development goals. The other half [10] addresses the progress in delivering global commitments - such as trade policies and levels and quality of aid - agreed upon in the MC. The report summarizes efforts undertaken by the World Bank and the IMF in relation to the follow-up of the MC. Key aspects of the Consensus in relevant areas – debt relief, debt restructuring (SDRM), surveillance, crisis prevention, institutional coherence, SDR allocation (implementation of the Fourth Amendment), and participation and voice of developing countries in international institutions and fora - are considered. The document also underlines joint actions of the BWIs in relation to the Consensus undertaken in cooperation with the WTO and the United Nations.

In referring to the MC follow-up before the IMFC and the DC, the Heads of the BWIs addressed themes related to low-income countries, poverty-eradication goals and aid-related issues, and emphasized the need to ensure that the Doha agenda becomes an effective development round. In the Communique of the IMFC, the follow-up to the MC receives limited attention[11]. The Communiqué of the DC pays more attention to the MC. In fact, virtually all the issues considered by the Committee have a counterpart in the MC. In referring to the Conference follow-up the Communiqué states in its paragraph 10: "The Monterrey Summit also addressed the importance of greater coherence, coordination and cooperation among multilateral organizations and the need to broaden and strengthen participation of developing countries and countries with economies in transition in international decision-making and norm-setting. The Summit encouraged the World Bank and the IMF to find pragmatic and innovative ways to further enhance participation of these countries and thereby to strengthen the international dialogue and work of these institutions. We requested the Bank and the Fund to prepare a background document to facilitate consideration of these important issues at our next meeting".[12]

The United Nations. Shortly after the summit at Monterrey, the special high-level meeting of the Economic and Social Council (ECOSOC) with the Bretton Woods Institutions took place in New York on April 22. Finance Ministers and Development Cooperation Ministers from the South and the North, as well as Permanent Representatives (Ambassadors) to the United Nations participated in the meeting. In his summing-up of the meeting,[13] the President of the Council stressed that it was important to preserve the "spirit of Monterrey"[14] in the critical task now

[9] DC 2002-0021/Rev1.
[10] Paragraphs 19-38.
[11] It is mentioned only in the context of the need for sustained international efforts to fight poverty. Yet in other subjects covered by the Communiqué (e.g. strengthening crisis prevention and resolution, surveillance – particularly of systemically important countries, strengthened technical assistance to the financial sector, enhanced policy on exceptional access to Fund resources and stronger framework for debt crisis resolution) the MC is not mentioned even though there are commitments in the Consensus that provide important agreed policy directions.
[12] It is the understanding of the author that three documents are being prepared by the staff of the BWIs to be presented to the DC in April 2003: one on institutional coherence; a second on participation of developing countries; and a third on global monitoring (millennium development goals and policies and actions in relation to Doha, the MC and World Summit on Sustainable Development).
[13] UN doc. E/2002/67.
[14] The President was referring in particular to the nature of the process leading to the summit and to the successful multi-stakeholder approach.

underway: the implementation stage. Many Ministers highlighted topics whose implementation was urgent and several specific proposals were made, in particular, regarding the modalities by which future ECOSOC/BWIs/WTO meetings and contacts at the political level between ECOSOC and BWIs could effectively address the follow-up of the MC.[15]

The General Assembly formally endorsed the MC on 9 July 2002. In the general debate of the 57th session of the General Assembly in September 2002, a large number of Heads of State and Ministers – including the President of Venezuela speaking on behalf of the G-77 and the Prime Minister of Denmark speaking on behalf of the EU – pointed out the importance of a quick and comprehensive implementation. Many among them also stressed those issues in the Consensus requiring urgent action- e.g. delivery of promises to increase ODA, alleviate debt burdens, expedite progress in the Doha Development Agenda and reducing instability in international financial flows. The specific consideration of the MC, as well as related issues, took place in the Second (Economic and Finance) Committee of the General Assembly.

The official documentation for the specific consideration of financing for development in the Second Committee included three reports of the Secretary General: Report of the International Conference on Financing for Development, Monterrey, Mexico (A/CONF.198/11); Report of the Secretary General on the outcome of the International Conference on Financing for Development (A/57/344); Report of the Secretary General on follow-up efforts to the International Conference on Financing for Development (A/57/319). There were also other reports of the Secretary General closely related to FfD issues[16] and background documents, in particular those provided by the Bretton Woods Institutions.

The report of the Secretary General on the outcome of the Conference presents an overview of the main features of preparing for the FfD Summit and the key aspects of the MC. It also provides an account of the main issues addressed in the 12 multi-stakeholder round tables convened during the Ministerial and Summit segments of the Conference.

The report of the Secretary General on the follow-up efforts to the FfD Conference provides an initial account of initiatives and commitments undertaken by Governments and major

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[15] In its Summer session, ECOSOC adopted a resolution on "International Conference on Financing for Development" (E/2002/34, 26 July 2002). In it, ECOSOC decides, inter alia : to prioritize intensified interactions with the World Bank, the International Monetary Fund and the World Trade Organization; and to make full use of the dialogue that takes place during its annual Spring meeting with the Bretton Woods institutions and the WTO to address, in addition to matters of common interest, the issues of coherence, coordination and cooperation related to the follow-up of the FfD Conference. In regard to the latter, the resolution also stresses the need for continued contacts between representatives of the UN, the BWIs and WTO, both at the intergovernmental level and at the level of management/secretariats.

[16] Report of the Secretary-General on the proposal to establish a world solidarity fund for poverty eradication (A/57/137). Report of the Secretary-General on the international financial system and development (A/57/151). Report of the Secretary-General on preventing and combating corrupt practices and transfer of funds of illicit origin and returning such funs to the countries of origin (A/57/158 and ADD. 1). Report of the Secretary-General on external debt crisis and development(A/57/253). Report of the Secretary-General on globalization and interdependence (A/57/287). Note by the Secretary-General transmitting the report of the Secretary-General of UNCTAD on world commodity trends and prospects, and Report of the Secretary-General on international trade and development and developments in the multilateral trading system. These documents can be found in www.un.org/ga/57/second/documentc2.htm.

institutional and other stakeholders in conjunction with the MC, from March to June 2002. It shows initial steps by the various stakeholders toward realizing the commitments at Monterrey in specific areas. In its recommendations, the report states that the General Assembly might wish to provide additional impetus to paragraph 68 of the Consensus which commits countries to continue to build bridges between development, finance, and trade organizations and initiatives, while recognizing that greater cooperation among existing institutions is needed, based on a clear understanding and respect for their respective mandates and governance structures.

In the deliberations on financing for development in the Second Committee, Ambassador Vallenilla of Venezuela, speaking on behalf of the G-77 and China, stated: "At the beginning of this year, we were able to reach an unprecedented agreement, by consensus, on a series of measures that will allow us, in a process that has already begun, to examine in a holistic and continuous manner the progress and shortcomings of the international trade and financial systems at all levels…This new process has the virtue of incorporating not only Member States, but also all relevant institutions, as well as the expressions of civil society, including the business sector…On the one hand, this follow-up lies with the Member States and their individual and global responsibilities. On the other, it has to do with the role that must be played by the different institutions, within their individual mandates and with the dynamics of their interaction." This, to a large extent, set the tone for seven resolutions directly linked to the MC.[17]

The discussions on the MC in the Second Committee focused on two aspects: procedures for an effective follow-up and priority issues. The resolution adopted on the High-Level Dialogue on strengthening international economic cooperation for development (A/RES/57/250) stresses that "the High-Level Dialogue as the intergovernmental focal point for the general follow-up to the International Conference on Financing for Development and related issues should contribute to promoting coherence among policies of development, finance, monetary and trading organizations within the framework of the holistic agenda of the Conference with respect to eradicating poverty, and achieving sustained economic growth and sustainable development and an equitable global economic system". One decision set forth in the resolution is "to hold biennially the High-Level Dialogue at the ministerial level and that the overall theme of the High-Level Dialogue will be *The Monterrey Consensus: status of implementation and tasks ahead."* The resolution also sets out in some detail the preparatory process for the Dialogue, invites the Bretton Woods Institutions and the World Trade Organization to participate in the preparatory phase and especially to participate actively in the Dialogue. The outcome of the Dialogue – a summary issued by the President of the General Assembly – will serve as an input to a resolution on the implementation of the MC to be adopted by the General Assembly at that session.

The resolution adopted on high-level international intergovernmental consideration on financing for development (A/RES/57/272) sets out the annual tasks for the General Assembly follow-up of the MC, underscores the importance of an active partnership with the Bretton Woods

[17] Resolutions A/RES/57/250, A/RES/57/272 and A/RES/57/273 described in the following page and resolutions on international trade: A/RES/57/235, commodities: A/RES/57/236, external debt: A/RES/57/240 and on the international financial system: A/RES/57/241 (these resolutions can be found in; http://www.un.org/Depts/dhl/resguide/r57.htm)

Institutions and the World Trade Organization, and identifies several issues in the Consensus of particular importance when seen in the perspective of the last quarter of 2002. It also highlights the work of the IMFC and the Development Committee, in particular the recognition of the need to identify pragmatic and innovative ways to further enhance participation of developing countries and countries with economies in transition in international decision-making and norm-setting, including an invitation to the IMF to continue its work on quotas.

As a complement to the above resolution, the General Assembly also adopted a resolution on "ensuring effective secretariat support for sustained follow-up to the outcome of the International Conference on Financing for Development" (A/RES/57/273). In it, the Secretary-General is requested, inter alia, to establish from within existing resources of the UN Secretariat appropriate secretarial support arrangements for sustained follow-up within the United Nations of the agreements and commitments reached at the Conference. This office is also requested to work in close cooperation with the BWIs and WTO.

In sum, the work of the Second Committee regarding the follow-up of the MC focused mostly on procedures, a more precise specification of the follow-up process for the future. The corresponding resolutions show that there was decisive progress in this arena. They also signal a widespread interest in the outcome of the Conference and the implementation of the Consensus.

Other stakeholders. Follow-up activities of other stakeholders that participated actively in the preparatory process and in the Monterrey Conference are presented in the report of the Secretary-General (A/57/319). Besides the steps taken by the BWIs, ECOSOC and the General Assembly, the report highlights actions taken by WTO, UNCTAD and UNDP until the third quarter of 2002. To a large extent, these institutions have responsibilities related to paragraphs 10-38 of the MC; that is, international trade, mobilization of foreign investment and other private flows, and assisting countries in building human and institutional capabilities to mobilize domestic and international resources for development.[18] The BWIs have also important responsibilities in several areas related to paragraphs 10-38 that are assessed regularly.

The report A/57/319 also provides information on the different follow-up activities NGOs and businesses are undertaking in the context of the MC. After being very active in the preparatory FfD process, NGOs have continued their involvement through interactions with the intergovernmental processes in many different ways: preparing position papers, participating in hearings and holding seminars to which government representatives are invited. Their substantive focus has been the objectives of the Consensus (millennium development goals), external debt issues – sustainability in particular, aid effectiveness, autonomy of developing countries over their economic policies, and financial architecture.[19]

[18] While the relationship is stronger in the three areas in parenthesis, in the implementation of systemic issues (paras. 52, 63, 64), WTO has an important role, UNCTAD also deals with external debt issues (paras. 47-51) and UNDP has a significant role in improving aid effectiveness (paras. 40 and 43).

[19] Most of the interaction of NGOs and international institutions with respect to FfD has been with UN bodies and the BWIs. But also, there was active participation and contribution of the NGOs to the preparation of the meeting on "Delivering the Monterrey Consensus" of the Commonwealth Finance Ministers in London on 24-26 September 2002.

During the FfD preparatory process a Steering Committee of Business Interlocutors was set-up. It was chaired by the International Chamber of Commerce and included the Business Council for the United Nations, the World Economic Forum and the Money Matters Institute. The Steering Committee assisted in organizing the participation of the private sector in the preparatory process and the Conference and in establishing the follow-up process. The latter focuses on proposals presented at Monterrey by business leaders.[20] A follow-up meeting led by the Steering Committee was held in New York on 8 October 2002. In it, the business interlocutors briefed the UN delegates on developments regarding the main proposals and put forward some new ideas.

Some areas of concern regarding implementation.

While progress to structure an effective and cooperative follow-up process of the Consensus has taken place and concrete actions have been taken in some areas, progress in several key policy areas has been meagre or non-existent. In a few cases there has been retrogression. What follows is a brief consideration of six important issues in the Consensus for which the score-card so far is unsatisfactory.

1) International trade. The MC reaffirms the commitment to trade liberalization and welcomes the decisions of the WTO to place the needs and interests of the of developing countries at the core of its work programme. It also acknowledges the issues of particular concern to developing countries such as trade liberalization in agricultural products and labour intensive manufactures, the need to make more precise and operational the provisions for special and differential treatment for developing countries, the reduction in trade distorting subsidies in agriculture, and the implementation and interpretation of the Agreement on Trade-Related Aspects of Intellectual Property Rights in a manner supportive of public health.

   Since the Monterrey Conference, the United States increased various agricultural subsidies[21] contradicting, in a sense, trade guidelines in the Consensus. The EU – while having considered different options to modify its agricultural support schemes - has yet to take steps in this respect. Recent decisions would indicate that EU agricultural tariffs and farm spending will not decline before 2006.[22] The WTO Secretariat report for the Trade Policy Review of the EU (24-26 May 2002)[23] indicates that the simple average tariff on agricultural products is about four times higher than that of non-agricultural products,

[20] All of these proposals are predicated on public/private initiatives. These proposals include the following ideas: The launching of a Global Information Clearinghouse with Government-Investor Networks, Independent Expert Groups and Third Party Audits; Mechanisms to enhance financing of infrastructure projects in developing countries, particularly through easing the access to debt finance; Setting up corporate restructuring funds to strengthen small and medium-sized enterprises in developing countries; incubating local sources of venture capital; enabling international debt work-outs; producing investment guides to help least developed countries attract new investment.

[21] US Farm Security and Rural Investment Act in May 2002. It provides for an increase in various agricultural subsidies up to US$ 73.5 billion over the next ten years.

[22] A proposal by the European Commission that received unanimous support by its members in January 2003 contains the following three elements: cut in agricultural imports tariffs by 36%, export subsidies for agricultural products to be slashed by 45% and reduction in trade distorting in domestic farm support by 55%. The proposal would be implemented in the course of six years commencing in 2006.

[23] WTO Press Release, Press/TPRB/198, 26 juky 2002.

that tariffs well above average also apply to textile and clothing products[24], that at EU level the funding (support) for the Common Agricultural Policy continues to represent the single largest expenditure, and that at Member State level the State aid for agriculture amounts to 1% of GNP. The lack of actions in the agricultural related issues is compounded by the fact that in accordance with the WTO Agreement on textiles and clothing most of the existing restrictions in textiles and clothing will not be lifted before the end of 2004.

Two issues in the Doha Agenda of particular concern to developing countries have not made progress either. The Director-General of WTO, Supachai Panichpakdi, recently expressed his disappointment over the failure of WTO members to meet the year-end (December 2002) deadlines for agreement in negotiations on special and differential treatment for developing countries and enhanced access to essential medicines for poor countries lacking capacity to manufacture such drugs themselves.

2) <u>Adequacy of the resources of the Fund</u>. Noting the impact of financial crisis or risk of contagion in developing countries and countries with economies in transition, the MC states: "we underline the need to ensure that international financial institutions, including the IMF, have a suitable array of financial facilities and resources to respond in a timely and appropriate way in accordance with their policies". The MC also encourages the IMF to continue to enhance participation of all developing countries and economies in transition in its decision-making. Both concerns could have been addressed in the Twelfth General Review of Quotas. However, it has just ended without any modification on levels or distribution of existing quotas. It was a crucial opportunity for progress that was missed.

   Higher levels of quota and a new quota structure are both crucial aspects of the MC. An increase in the quota level will help to ensure adequate IMF resources in case of simultaneous crises in a number of middle-income countries. There will be less need of protracted negotiations with third parties to assemble a financial support package for countries with immediate needs. This will lessen the danger that third parties, rather than the IMF, will determine the adjustment framework. Moreover, higher quotas will be more in consonance with developments in international trade. Total IMF quota in relation to world imports is about a tenth of what it was in 1950 and only two fifths of what it was in 1970. Also a higher quota for an individual developing country – and the accompanying larger access that it implies - should likely lead to an improved trade-off between finance and adjustment for that country in the eventuality of an IMF stand-by arrangement. Analysts have observed that "under-funded" programmes have less chances of success.[25]

[24] The report also indicates that "To date the EU has lifted restrictions on 20% of products restricted in 1990, leaving the elimination of the remaining 80% of resticted imports *back-loaded* for the final stage at the end of 2004."

[25] Many observers, particularly since the mid 1980s, have discussed the link between adjustment and financing and concluded that the severity of the adjustment is closely linked to available resources. See, for example, "Financial Management of Globalization – IMF and Developing Countries" (Arjun Sengupta, Economic and Political Weekly, Mumbai, India, 15 January 2000) and "An Analysis of IMF Conditionality" (Ariel Buira …) .

3) Participation of developing countries in economic decision-making. The lack of action on quotas in the Twelfth General Review implies unchanged quota structures and persistence of existing anomalies in the present quota structure. Members of G-24, such as Brazil and Mexico, have GDP and import levels significantly above some industrial countries whose IMF quota is higher than that of either of the former two countries.[26] Korea has a GDP and imports which are at least twice the size of those of Austria, Denmark or Norway. Yet, its IMF quota is lower than that of those three countries.

But, the foundations for equitable participation should consider aspects that go beyond merely economic and financial factors. The global push for more democratic institutions and enhanced participatory structures at the national and international levels should also be part of the picture. If the donor countries were to be consistent with their own principles and practice, they should push for more effective participatory structures in the Fund.[27] The push for democracy also strengthens the initial justification of basic votes being a significant part of the voting power. A larger weight in basic votes might substantially change the participation of African countries - 45 of which are represented by only two of the twenty-four IMF Executive Directors.[28]

4) Coordination of macroeconomic policies among leading industrial countries and surveillance. The MC calls for strong coordination of macroeconomic policies among the leading industrial countries - which is critical to greater global stability - and stresses the need for the IMF to further strengthen its surveillance activities over all economies. In the IMFC Spring meeting of 2002, the Managing Director of the Fund called attention to the danger of an increasing external deficit in the United States. This situation required firm control over public spending and a long-term strategy to increase national savings in this country. Nonetheless, the US external deficit has continued to grow and is now above 5% of GNP.

The high external deficit of the US and its increasing fiscal deficit – probably reaching $ 300 billion - pose a significant risk to the world economy.[29] An abrupt adjustment – sharp reversal – of the US external deficit, particularly if accompanied by a substantial weakening of the dollar, can trigger financial and real economic shocks in the rest of the world.[30] The problem is further compounded by the lingering effects of the major setback

[26] Mexico has higher imports and a much larger GDP than Australia, Belgium or Switzerland; nonetheless, it has a significantly lower IMF quota. Brazil has imports similar to those of Australia or Switzerland and a GDP close to double that of either of those two countries; yet, its IMF quota is lower.

[27] While the argument that in the decisions affecting the use of the Fund resources those who provide the resources should have a major say has a strong basis, there is not a strong basis for the disproportionate weight of a few members in decisions that do not lead to the use of Fund resources. Factors such as the number of countries and relative size of population affected by the decisions should be taken into account.

[28] Some of the political and the statutory implications of changing basic votes are discussed in "Governance of the IMF – Decision-making, Institutional Oversight, Transparency, and Accountability" Leo Van Houtven, IMF 2002, (Pamphlet series No. 53).

[29] The recent federal budget proposal forecasts a deficit of $ 304 billion in fiscal year 2003 and $ 307 in fiscal year 2004.

[30] A recent analysis of the possible risks confronting the world economy and the sustainability of the external deficits of the United States appears in "World Economic Situation and Prospects 2003", United Nations DESA/UNCTAD (Sales No. E.03.IIC.2).

in the confidence of economic agents due to pervasive corruption or mismanagement in several large US corporations.[31]

Yet, a medium-term framework to reduce imbalances in the United States is only part of the solution. Without a solid recovery in Europe and a strong recovery in Japan, US efforts to reduce imbalances can lead to major strains in the world economy with adverse implications for developing countries.

5) HIPC. The MC highlighted that speedy, effective and full implementation of the enhanced Initiative was critical. It stressed that the enhanced Initiative should be fully financed through additional resources and that the computational procedures and assumptions underlying debt sustainability analysis need to be kept under review. The Development Committee in the Spring meeting of 2002 agreed that, inter alia, the success of the Initiative depended on the donor community providing adequate and appropriate concessional financing. It also agreed to discuss the issue of debt sustainability at its next meeting.

   Recent assessments would indicate that, in the past, assumptions regarding the parameters that underlie sustainability have been in most cases too optimistic. A stronger dose of reality is needed. Regarding resources, a prompt fulfilment of the pledge made by the G-7 in Kananaskis, Alberta, Canada, in June 2002, of an additional US$ 1 billion seems critical. The pledge was reiterated in the Fall meeting of the Development Committee. Yet, actual contributions are taking longer than expected and, therefore, the implementation of the Initiative is being delayed. The record of the initiative is not satisfactory. In six years only 6 countries have reached the completion point.

6) SDRs. Paragraphs 44 and 59 of the MC refer to special drawing rights. The Consensus calls for keeping under review the need for special drawing rights allocations. Three different aspects could be considered. First, several proposals in the FfD process pointed to the need to authorize the IMF to make quick decisions for a temporary issue of SDRs to swiftly stamp out international liquidity crises in member countries.[32] Once the emergency is over the SDRs would be destroyed. Secondly, allocations should be made to avoid "reverse aid" as proposed in the "Zedillo Report".[33] The original intent of issuing SDRs was to allow international reserves to be increased, in line with need, without imposing real costs on the average country. Without SDRs allocations, in order to reach an adequate level of reserves developing countries have either to run a current account surplus or to borrow on terms much more onerous than those associated with SDRs. Thirdly, a global issue of SDRs could facilitate recovery of the world economy. In many countries export capacities are under-utilized. World inflation is the lowest in many years and there is a risk of deflation in some of the large industrial economies. A global

[31] According to "Business Week" of 30 December 2002: "The problems revealed by the scandals were systemic, not the result of a few bad apples". (*What we learned in 2002*, page 170)

[32] See, for, example, " Report of the Secretary-General to the Preparatory Committee for the High-level International Intergovernmental Event on Financing for Development" paragraph 159 (A/AC.257/12) and " Existing proposals to ensure availability of sufficient international liquidity in order, inter alia, to avoid unnecessary recessive adjustment processes" UN A/AC.257/27 add. 9)

[33]" Report of the High-level Panel on Financing for Development". (United Nations, A/55/1000, 26 June 2001).

allocation is unlikely to be inflationary, should lead to an increase in import demand in a number of countries and thereby assist the recovery.

The Ministers of theG-24 called again in the 2002 Spring meetings for a swift implementation of the Fourth Amendment of the IMF's Articles of Agreement on the special, onetime allocation of SDRs and urged those countries that had not done so to ratify promptly the Fourth Amendment. Yet, no progress has taken place on this front or on the proposals above. The issue seems to have been set aside despite its critical importance for a large number of countries.

The G-24 and the next steps

The holistic approach and the variety of issues addressed in the MC calls for simultaneous efforts on many fronts. At the same time, the nature and reach of the Consensus imply a leading role for the Ministers of Finance as well as Governors of Central Banks in the implementation of the Consensus [34]. In this, the G-24 have a critical role to play. They are the main voice of the South in international financial affairs. They command technical expertise in key subjects of the Consensus and represent the interests of the South in the Bretton Woods Institutions which are essential for effective and broad-based implementation.

Several of the policy guidelines in the Consensus need to be translated into concrete actions. This is a technical as well as a political task since the policy instruments have to be identified in detail, in an effort to ensure that they can become operational as each country's circumstances warrants. The accumulated experience of the G-24 can make a unique contribution in this field. The positions taken by the G-24 in Washington can be strengthened if they are supported effectively by the G-77 in New York.

The role of the G-24 is also critical in ensuring that all crucial themes of the Consensus – including the reform of the international financial architecture – remain in the follow-up agenda.[35]

The approach to the follow-up of the MC by the G-24 can take different paths. Three possible main options can be considered:

1) Continuation of the road taken in 2002, i.e. mostly reacting to the MC related issues as they appear in the work of the Executive Directors and the agendas of the IMFC and the Development Committee. Whether this path is satisfactory remains an open question. Without a proactive approach, the consideration of important aspects of the MC might be postponed indefinitely and the consideration of key issues might lack context. There will

[34] There is also a key role for Ministers of Trade, Development Cooperation and Foreign Affairs.

[35] In the IMF Annual Report 2002 (box, page 55) there is a characterization of the MC that leaves out crucial issues such as reform of the international financial architecture and participation in international economic decision-making. The stress of the Annual Report 2002 is on trade and aid, both of which are important, but are not the exclusive issues of the Consensus. (In the IMF Annual Report 2001, it is stated that the Monterrey Conference is an outgrowth of the UN Millennium Summit held in September 2000. In reality, the FfD process leading to the Monterrey Conference began well before the UN Millennium Summit with two resolutions of the General Assembly - A/RES/51/240 and A/RES/52/179 – both adopted in 1997).

rather be an ad-hoc consideration of issues driven by prevailing circumstances. Several critical issues in the MC will likely remain in limbo, while consultations with the G-77 will also remain sparse.

2) Taking ownership of the MC in those issues that have been traditionally at the core of the work and initiatives of the G-24, namely from paragraphs 36 to 65 of the Consensus. Those provisions cover areas such as ODA levels and effectiveness, compensatory financing, technical assistance for trade and fiscal and financial systems, special support to less advanced countries and Africa, and the external debt problems. They stress systemic issues such as the participation of developing countries in economic decision-making and norm setting, the role of the IMF and other multilateral financial institutions, international financial stability, the issuance of SDRs and coherence of the international monetary, financial and trading systems in support of development.
   The above would imply a work programme of the G-24 more attuned to the MC. Given the content of the Consensus, most future issues that might arise can probably be addressed by the MC provisions. Also, given the commitments reached at Monterrey and the actors involved there, this approach could give further political impulse to several of the issues of special interest to the G-24. Moreover, this could be enhanced by more frequent consultations with the G-77.
3) Embracing more broadly the MC (full ownership) by stressing key actions in all substantive areas covered by the MC. Combining this with improved coordination with the G-77 would push forward the effective and comprehensive implementation of the Consensus on all fronts. Under this approach, eventual negotiations and the political declarations and Ministerial communiqués of the Group would highlight the MC commitments as a key reference point for the adopted positions. While this would not apply to every issue, it would add to the visibility of the MC and should put additional pressure on other actors to accept such positions.[36]

Key issues in relation to the MC follow-up

While new issues will appear and the required emphasis on issues under consideration by the G-24 might change, an identification of current priorities might help focus the attention of the Group and facilitate the formulation of a medium-term work programme. In relation to the MC there are two crucial areas in which political pressure should be maintained: ODA levels and the Doha Development Agenda, in particular the liberalization of agricultural trade and phasing out of agricultural subsidies. The pledges in the Monterrey Conference by the EU and the United States and the recent proposal to create an International Finance Facility[37]

[36] Still, this approach has to be seen in the context of the six policy areas that are part of the Consensus, including mobilization of domestic financial resources and the related principles and policies embodied in good governance, effective institutions, macroeconomic management and social protection. Some of these issues have not been on the forefront of concerns of the G-77. In the discussions in the General Assembly, the North has stressed that implementation of commitments for domestic transformation in the MC should go pari pasu with progress in implementing the international policies agreed therein.

[37] See "International Finance Facility", an initiative of the UK Chancellor of the Exchequer (Gordon Brown) and the Secretary of State for Development (Clare Short), January 2003 (www.hm-treasury.gov.uk; www.dfid.gov.uk). The implementation of this initiative would double ODA.

give hope for a turnaround in the declining aid trends[38]. Yet, commitments have to materialize and the new efforts have to bear fruit. It is too early to assess net aid flows.

Enhanced links with the G-77 in New York and Geneva could reinforce any steps taken by the G-24 in the fields of trade and aid. Also in relation to the MC, one can visualize a dozen priority areas in which the work of the G-24 is critical because either a further political push is crucial or the policy actions and instruments of the Consensus need refinement.

1) Increasing the capacity of the international system to identify and prevent crises and to strengthen the underpinnings of international financial stability. Improved and more symmetric surveillance, timely detection of vulnerability, reducing the risk of contagion. Suitable array of financial facilities and resources to deal with balance of payments problems and financial crises. Lender of last resort. (55, 58, 59)[39]. All these issues have been at the forefront of concern of the G-24 since the Asian crisis. Some progress has taken place, but additional technical work is required. A major and urgent adaptation of instruments (e.g. Contingent Credit Lines which have remained unused) is necessary to increase the volume and speed of disbursements in order to quell individual crises and prevent contagion.
2) Role and resources of multilateral development banks, World Bank and regional development banks, in particular. Financing developing countries that lack adequate access to private capital markets. Catalytic role in mobilizing national and international private capital. Facilitating export credits, guarantees, co-financing, risk mitigation instruments. (22, 37, 45, 46). Many developing countries require official long-term capital – often on concessional terms – to build the foundations for development. Moreover, globalization, liberalization of capital markets and investment regimes and more market-friendly policies in many countries require additional tasks from official financing institutions. Also, new regional integration programmes may require long-term official capital.
3) Participation of developing countries in international economic decision-making. Revising quota formula and increasing basic votes. Increased voice and participation in the formulation of norms, codes and standards, including in the work of the Financial Stability Forum and the Basel Committee. (30, 53, 57, 62, 63). Progress in the latter fora has been scant and uneven. In the IMF, the changes in relative economic power (GDP or international trade) of present members and focus of its operations (only developing countries using its resources) indicate an urgent need to revamp the quota system.[40]
4) Role of the BWIs to support efforts of low-income countries and Africa. Contribution of BWIs to NEPAD. (39, 40, 43) The vulnerability of African economies remains high.[41] GDP growth in the region decelerated in 2002 after a lackluster performance in 2001; the volume of exports declined. An estimated 14 million people in a number of countries face

[38] Despite the decline in Japanese aid.
[39] The numbers presented in parenthesis are the relevant paragraphs of the MC.
[40] See also the relevant part of section *"Some areas of concern regarding implementation"* on this issue.
[41] It is expected that under current trends in Sub-Saharan Africa the number of people living in extreme poverty will increase – by more than 100 million between 1990 and 2015. ("Achieving the Millennium Development Goals in Africa: Progress, Prospects and Policy Implications", Global Poverty Report 2002, prepared by the African Development Bank and the World Bank).

a high risk of malnutrition and famine in early 2003 [42]. NEPAD embodies a comprehensive strategy in which cooperation efforts, including those of the BWIs, are critical to accelerate development.

5) Reducing transactions costs of ODA. Untying aid; harmonizing donor operational procedures. Aid effectiveness. Promoting the use of ODA to leverage additional financing for development: foreign investment and domestic resources. (39, 43, 46) The effectiveness of ODA has become a key issue in several fora. While improvements are needed in recipient countries, significant reforms are also required by donors and multilateral development institutions.

6) Enhanced technical assistance in four key areas: domestic financial system, in particular mobilization of long-term capital and financing for small and medium-size enterprises; fiscal institutions and policies, especially tax system and administration; external debt management; international trade, including technical assistance for trade negotiations and increases in export capacity. (19, 36, 38, 47) Enhancing domestic – human and institutional – capacities remains the most important factor in improving the mobilization of domestic and international resources for development in the long run.

7) Issuance of SDRs. (44, 59) On SDRs, three facets appear important: considering the current juncture and pervasive deflationary forces which suggest that a global SDRs allocation is required; authorization for an automatic, temporary issue of SDRs to swiftly stamp out crises in member countries; discrete allocations for development financing purposes.

8) HIPC: adaptations required in the light of past experience and changed international economic conditions. Improving analysis and definition of debt sustainability. (49, 50). In the past, assumptions regarding the parameters that underlie sustainability have been in most cases too optimistic. A stronger dose of reality is important. Also with regard to the definition of sustainability, after Monterrey additional factors have to be considered, i.e. incorporating Millennium Development Goals in assessing sustainability.

9) Enhancing ownership. Reducing and streamlining conditionality. New policies on the basis of the lessons learnt in the last forty years and the design of the PRSPs. (40, 56). In the last two decades the record of successful adjustment programmes has not been good. While the issue of the depth and character of the adjustment versus the volume of finance still remains, there is a compelling need to simplify conditionality and ensure effective ownership of adjustment – but also of structural - programmes.[43] Also more work is needed on the effect of IMF adjustment programmes on expectations of domestic and international investors. In several cases private actors' perceptions have not changed in the sought-after direction.

10) Adapting the Compensatory Financial Facility. (37) For most least-developed countries and African countries this remains a critical issue. The effectiveness of current arrangements have proved unsatisfactory and insufficient.[44] Despite the recent review of

[42] See: "World Economic Situation and Prospects", UN, New York, 2003.op. (Sales No. E.03.II.C.2).

[43] A recent review of conditionality that includes the lessons of the second half of the 1990s is found in: "An Analysis of IMF Conditionality" (Ariel Buira, December 2002).

[44] The Report on "Economic Development in Africa: Performance, Prospects and Policy Issues" (UNCTAD, August 2001) recommends that "consideration should be given to building an automatic compensatory element into the aid mechanism so that growth is not interrupted by sudden external shocks".

the CFF and depressed commodity prices there were no purchases from the CFF in 2002. Two issues seem relevant: cost for low-income countries and automaticity of its use.

11) External debt of middle-income countries: debt sustainability, SDRM. (51, 60). Risk aversion to countries with emerging markets has increased significantly in the last years with insufficient differentiation among countries.
12) Working with the Paris and London Clubs. Possible steps for more balanced negotiations. (48) In the discussions leading to the MC some options were considered.[45] Not only comparable treatment is important, but also moving negotiations forward expeditiously.

Conclusions

With the FfD process, financing for development returned to the top of the international agenda. Living up to the commitments in the MC remains a major challenge for all countries and multilateral institutions, in particular the BWIs. Almost one year after the Summit at Monterrey, steps taken by the General Assembly and the BWIs, as well as by other important partners, suggest a sustained momentum. This provides a unique opportunity to advance further in many key issues on the agenda of the G-24.

The follow-up in the UN has largely concentrated on procedures. The effort has focused on finding ways to ensure effective and comprehensive implementation inside and outside the Organization. Indeed, actual decisions for action in most areas of the Consensus – including the most critical ones – have to be taken elsewhere. The responsibility lies in individual countries and multilateral institutions, in particular the WTO and the BWIs. There is the danger that the latter do not accord priority or urgency to crucial issues in the Consensus and that concrete actions are selective, paying attention to only partial aspects of the Consensus.

The Consensus was partly shaped by circumstances prevailing after 1997. Yet, it focuses on long-standing reforms needed in the international trade and financial systems. Since the Summit at Monterrey, the world economy has remained in the doldrums and the international financial instability has persisted. This calls for urgent and comprehensive - rather than gradual or selective - implementation of the Consensus.

This note provides a set of twelve issues all closely linked to the MC. While some have seen progress, in others progress has been uneven or nonexistent. The increasing aversion to risk on the part of developed country investors, the negative net transfer of resources from the North to the South again in 2002, and slow growth in most developing countries[46] make a swift implementation of the MC even more urgent. This hinges on substantial technical and political efforts. Such efforts are required to translate principles and policy guidelines of the MC into concrete policy actions. The G-24 can make a crucial contribution in this field.

[45] Eg. mediation type mechanisms, establishing a debtors' club (See A/AC/257/27, and addendum 5). See also "Debt Management a la Louis XVI – A short Promenade through the Programme and Practice of the Paris Club", Juergen Kaiser, (paper prepared in the context of Jubilee 2000, htpp://www.jubilee2000uk.org/analysis/articles/J_Kaiser_Paris%20club.htm).

[46] Particularly in Africa and Latin America.

To nurture the current political momentum, enhancing the links of the G-24 with the G-77 is important.[47] One of the achievements of the FfD process – particularly at the later stages of the process and culminating in the Monterrey Conference - was cooperation between Ministries of Finance, Trade and Foreign Affairs. Strengthening the links among the South constituencies in Washington, New York and Geneva might prove decisive for a more effective follow-up of the Consensus.

[47] One prominent member of the G-77 said that Foreign Ministries in the UN are not challenging the turf of the G-24. The FfD process has opened spaces where the voice of the South on financing for development can be louder than in the BWIs. Voice is not the same as vote, but voice can build momentum. The FfD process has provided the South with an opportunity that should not be missed.