

## The Monterrey Consensus: The Conference on Financing for Development

Radke, Detlef

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## The Monterrey Consensus The Conference on Financing for Development

*The Conference on Financing for Development (FfD) ended on 22 March 2002 with the adoption by acclamation of the Monterrey Consensus by the heads of state and government in Monterrey, Mexico. The aim of the Conference had been to examine the internationally agreed development goals adopted during the past development decade, and especially the goal of halving the number of people living in absolute poverty by 2015, for their financial implications and to indicate ways of mobilizing the financial resources needed to achieve them.*

*The Monterrey Consensus consists of a collection of non-binding and vague declarations of intent. The developing countries commit themselves to good governance, economic and social reforms and stability-oriented macro policies. When and on what scale is left open. Nor does the Monterrey Consensus refer to any targets for increasing domestic resource mobilization.*

*The industrialized countries similarly failed to make any specific commitments in Monterrey. They refused to discuss the developing countries' trade demands, claiming that they fell within the WTO's terms of reference; the framework for debt rescheduling operations continues to be confined to the HIPC countries, and they accepted a substantial increase in ODA contributions only in principle, i.e. without any specific commitments or time frames. Only the USA's and EU's unilateral declarations at the time the Monterrey Consensus were adopted that they would increase their aid by US \$ 12bn per annum from 2006 shines a more positive light on the Consensus. The reform of the international monetary, financial and trading systems was also reduced to a promise to improve cooperation among the existing international institutions.*

*The Monterrey Conference certainly cannot be classed as an historic conference, but in many respects it did bring progress where the detail is concerned. This is especially true of the willingness shown by the governments of the developing countries during the Conference to accept that they are primarily responsible for their own economic and social development and of the industrialized countries' willingness in principle to give the developing countries a greater say in the various international institutions. The Monterrey Consensus also calls for fresh action, for example, to increase ODA effectiveness, to achieve fairer burden-sharing during the management of international financial crises, to establish international insolvency law and to strengthen the role of the private sector.*

### Aim of the Conference

The aim of the Conference on Financing for Development (FfD) was to identify the financial implications of the internationally agreed development goals adopted during the past development decade and reaffirmed by the heads of state and government in the Millennium Declaration and to indicate approaches to mobilizing additional financial resources. With this aim, the FfD Conference represented a further important step in international efforts to eliminate poverty in the world and to improve the social and ecological conditions in which humankind lives. It was not conceived as a pledging conference, but sought rather to define a political position on what can be financed today, what agreement can be reached on and what financing problems require further clarification.

### The holistic approach at the Conference

The Conference can take considerable credit for having examined the whole spectrum of development financing. This approach stemmed from the realization that only if the various sources of finance were considered in their entirety could a realistic overview of gaps in existing resources and opportunities for mobilizing additional resources be obtained. It also prevents excessive emphasis on individual sources of finance, especially ODA, which tends to be modest in scale compared to all other domestic and external sources of finance.

The Conference focused on what the Monterrey Consensus refers to as "leading actions": mobilizing domestic financial resources, mobilizing international resources, trade, financial and technical cooperation, external debt and systemic issues: coherence and consistency of the international monetary, financial and trading systems.

The last of these leading actions was not confined to financial questions in the narrower sense, i.e. the contributions of the multilateral development banks or the IMF. The discussions centred rather on the basic question of how the international financial, monetary and trading systems should be shaped to improve the prospects for the process of sustainable development and the achievement of the internationally agreed development goals.

### A new partnership

Achieving the internationally agreed development goals, especially that of halving the number of people living in absolute poverty by 2015, will require not only fundamental changes in the views and policies of all actors but also an increase in financial resources. The developing countries' efforts will need effective support from the bi- and multilateral donors, just as, conversely, the international community's contributions cannot produce the desired results unless they are embedded in responsible policies pursued by the recipient countries with the aim of reducing poverty. This phi-

losophy forms the basis of the Monterrey Consensus and the new partnership between industrialized and developing countries which it proclaims.

The new partnership approach also includes closer cooperation between the public and private sectors. It would be too much to expect government institutions to achieve the internationally agreed development goals on their own; the active involvement of the private sector will also be needed. Government is expected to create the environment to enable the private sector to develop dynamically; the business community, including foreign direct investors, are, on the other hand, expected to be guided in their investment decisions by the principles of corporate governance and to take due account of the host country's development priorities in their investment thinking.

### **Challenges to the developing countries**

When the Monterrey Consensus is analysed to identify the areas and tasks posing the most serious challenges to the developing countries, it is noticeable that the same demands are repeatedly voiced in all the leading actions discussed at the Conference: governments must create stable political, economic and social conditions in their own countries; good governance and ownership must become watchwords of their policies; combating poverty is the overriding goal by which government action must be guided. This will require not only stability-oriented macro policies, disciplined budgetary and monetary policies and a transparent, non-discriminatory and legally unambiguous environment but also a free-market economic system and social structures that enable the productive forces of groupings in civil society to develop their full potential.

None of these requirements is new. In the past ten years they have increasingly moved centre stage in the debate on development policy. But at the Monterrey Conference this debate was conducted in the specific context of development financing. Reduced to a simple formula, the message from Monterrey reads: without democracy, the rule of law, economic reforms and stability-oriented macro policies the fundamental financial straits of the developing countries cannot be overcome.

During the FfD Conference these issues were discussed in considerable depth and very openly. The seriousness with which they were addressed by the developing countries was convincing. Very few attempts were made to blame the international environment for internal errors and constraints. It is to be hoped that the Monterrey Consensus will be a turning point and that deeds will now follow the many words. The New Partnership for Africa's Development repeatedly referred to by many of those attending the Conference can indeed be seen as a positive sign of the developing countries' greater willingness to accept more responsibility.

### **Challenges to the industrialized countries**

**International trade:** The Monterrey Consensus endorses the model of a universal, rule-based, open, non-discriminatory and equitable trading system. It would benefit countries at all stages of development. The commitment to liberalize trade is renewed, and the decision of the World Trade Organization (WTO) to place the developing countries' needs and interests at the heart of the work programme it adopted at the fourth Ministerial Conference in Doha is welcomed.

This outcome of the Monterrey Conference fell well short of expectations. The developing countries, for which revenue from trade is by far the most important source of external finance, saw the Conference on Financing for Development as a suitable platform for improving the conditions for a long-term increase in their export earnings. Principal among their demands, for example, were unrestricted access for their goods, and especially agricultural products, textiles and clothing, to the markets of the industrialized countries, the abolition of all export subsidies in the industrialized countries, particularly in the agricultural sector, a review of trade-related intellectual property rights and a reform of the WTO aimed at strengthening the developing countries' role in this organization. In the final document these concerns of the developing countries are now merely mentioned in a separate paragraph.

The industrialized countries refused to discuss the developing countries' trade demands, claiming that they fell within the WTO's terms of reference. What they deliberately overlooked is that there was no question of negotiation. They had already agreed to most of the demands at the previous round of world trade talks, the Uruguay Round. Without harming the WTO's mandate, they could therefore have agreed in Monterrey to honour without any further delay the commitments they had entered into during the Uruguay Round. Their failure to do so is one of the most serious disappointments of the Conference. Nor is there any consolation to be found in the industrialized countries' offer to use development cooperation to help the developing countries overcome supply-side constraints in foreign trade.

**Increasing financial and technical cooperation and improving its effectiveness:** For countries which do not yet have access to the international capital markets and are uncompetitive in the world markets ODA remains – according to the underlying message of the final document – an essential source of finance. However, the varied uses to which it can be put also make it important for other developing countries. The emphasis was placed on two aspects during the Conference: increasing the volume of ODA and improving its effectiveness.

If the internationally agreed development goals are to be achieved, a substantial increase in ODA contributions is considered necessary. The donor countries were not, however, prepared to agree to unequivocal commitments. As regards the 0.7 % target, for example, all the final document has to say is: "We acknowledge the efforts of all donors, commend those donors whose ODA contributions exceed, reach or are increasing towards the targets, and underline the importance of undertaking to examine the means and time frames for achieving the targets and goals."

The criticism levelled at this empty compromise, which had already been reached in New York in January 2002, undoubtedly helped to persuade both the USA and the EU unilaterally to announce a substantial increase in their ODA contributions in Monterrey. US President George W. Bush declared that he would push the US Congress to agree to a 50 % increase in US development aid (related to core development assistance) in the next three fiscal years. This would result in a permanent rise in the volume of ODA by US \$ 5bn at the end of this period, compared to the present level. Through Commission President Romano Prodi the EU announced that it intended to raise its average ODA quota from 0.33 % to 0.39 % by 2006, with each Member State achieving a quota of at least 0.33 %. In all, this is equivalent to an annual increase in ODA by US \$ 7bn.

ODA quotas of some major EU donor countries (2000)	
Spain	0.24 %
Germany	0.28 %
France	0.33 %
Netherlands	0.82 %
Denmark	1.06 %

These two commitments have taken much of the wind out of the sails of the critics of the Monterrey Consensus. Nonetheless, the situation after the Monterrey summit cannot be considered satisfactory. For one thing, there is no corresponding commitment from the largest bilateral donor, Japan; for another, the future contributions from the multilateral financial institutions remain uncertain. Although the total additional US \$ 12bn committed indicates the likelihood of a positive change of trend in ODA contributions, it does not guarantee that the internationally agreed development goals will be achieved.

In view of the limited financial room for manoeuvre in most donor countries greater attention is to be paid to the effectiveness of ODA resources in the coming years. There is still too much bureaucracy, too much national interest and too little transparency in the system of development cooperation. The Conference is to be congratulated on referring explicitly to these weaknesses and putting forward numerous proposals for improving ODA effectiveness. They include proposals for further harmonizing the donors' allocation procedures, increasing untied aid and giving the recipient countries a greater say in the use of resources and of more programme-oriented instruments.

**Indebtedness:** The enlarged debt initiative for the heavily indebted poor countries (HIPC) remains the framework for debt relief operations. Attempts to grant or promise middle-income countries debt relief failed because of opposition from the industrialized countries. They did, however, reaffirm their desire to bring the HIPC initiative to an early and successful conclusion. All the HIPC are, wherever possible, to enjoy the full benefits of the debt relief proposals. The current procedures are to be used as flexibly as possible, and the debt relief operations are to be financed with additional resources.

The enlarged HIPC initiative is based on the concept of sustainable debt. Views on how this should be defined in practice also differed at the Conference. The methodological procedures and assumptions on which past analyses have been based are therefore to be reviewed. In the future, the analyses will take greater account of the possibility of a lasting change in the limits to sustainable debt due to a deterioration of the world economy, natural disasters or trade shocks. The Monterrey Consensus also includes a call for the establishment of clear criteria for the management and resolution of financial crises to ensure fair burden-sharing between the public and private sectors and between creditors and debtors.

**Systemic issues:** In a world which is growing ever closer together a country's development increasingly depends on the international environment. The industrialized and developing countries were therefore able to agree fairly rapidly that national development efforts must be complemented by reforms in the international monetary, financial and trading systems. With a reference to the many reforms which have already been launched, it was agreed that further opportunities for improvement should be sought pragmatically. Shortcomings were identified in the developing countries' participation in the decision-making processes of inter-

national institutions and forums and in the organizational and institutional structures of the international system.

The demands vehemently put forward by the developing countries for a greater say in the decisions of the international institutions and forums were met with formal arguments from the industrialized countries. In particular, they refused to negotiate on reforms of the international economic order within the United Nations system. They referred to the existing mandates of the international institutions, which could not be changed by decisions taken at the Conference. The Monterrey Consensus therefore does no more than name the institutions concerned and encourages them to take measures to ensure stronger representation of the developing countries within their respective mandates.

With the aim of making the international system more coherent, improved coordination among the multilateral financial, trade and development institutions and between these institutions and the United Nations system is advocated. In addition, the role of the UN regional commissions and of the regional development banks in the regional policy dialogue on macroeconomic, financial, trade and development issues is to be promoted.

### Political stakeholders

The political environment from which the Monterrey Consensus emerged was essentially defined by the USA (with the backing of Japan, Canada and Australia), the EU and the Group of 77 plus China. None of the other countries or regional groupings had any appreciable influence on the Conference proceedings.

The dominant actor during the two years of preparations for the Conference was undoubtedly the USA. At first, it utterly rejected the idea of a conference; once it could no longer be avoided, the USA first showed a destructive interest, then faced up to the Group of 77 plus China with almost unsurpassable firmness and in the end dominated the Conference with a negotiating performance that put all the other delegations in the shade. The Monterrey Consensus is largely a reflection of American interests and views. The US delegation also referred to this quite openly as the precondition for the US President's attendance of the summit meeting in Monterrey. The fact that Japan, Canada and Australia supported much of the American negotiating position was undoubtedly helpful to the USA, but not decisive.

The European Union's bargaining strength fluctuated sharply during the two-year negotiations. This was essentially due to the six-monthly change of EU presidency. It was unfortunate that the representation of the EU was extremely weak at the final and decisive phase of the Conference. As a result, it was unable to assert itself in matters in which its position differs from the USA's, as on the 0.7% target and the reform of the international system. Had the EU been appropriately committed, the whole issue of global public goods would certainly not have been removed from the final document.

The Group of 77 plus China similarly demonstrated strengths and weaknesses during the negotiations, which was partly due to the group's spokesmen. A further problem for the G77 plus China was the holistic approach adopted at the Conference. Given the wide range of different issues, the group hardly succeeded at times in blending its members' extremely heterogeneous interests into a negotiating position. The fact that numerous issues were not discussed during the Confer-

ence was not least due to the weakness of the Group of 77 plus China. Throughout the Conference China was highly reticent, primarily because it is unlikely to have any financing constraints that can be attributed to a shortage of capital.

### Evaluation of the Conference

The Conference did not achieve its immediate aim of analysing the financial implications of the internationally agreed development goals and identifying opportunities for mobilizing additional resources. The question still open or contentious after the Monterrey Consensus is what financial resources need to be mobilized in total if the internationally agreed development goals are to be achieved and what contribution the various sources of finance might make. Nor is this statement in any way changed by the promise of an increase in the EU's and USA's ODA contributions made in connection with the adoption of the Monterrey Consensus.

An evaluation of the Conference on Financing for Development that considers only the text of the final document does not go far enough since it fails to take adequate account of the two years of negotiations that preceded the Conference. What is important is that the Conference is seen as part of an evolutionary process in which the aim is to reshape the relationship between industrialized and developing countries. Seen from this angle, international conferences cannot as a rule be evaluated in terms of whether "breakthroughs" are achieved or whether milestones or turning points are reached. Only a few conferences can claim this for themselves. In such terms the Monterrey Conference certainly cannot be classed as an "historic" conference and placed on a par with the UN's Sixth Special General Assembly in 1974 or the Rio Conference in 1992. As a "normal" conference, it must rather be analysed and evaluated in terms of whether any movement occurred in individual areas of conflict and negotiation during the proceedings. This was undeniably the case.

Particular emphasis should be placed on two changes which may have lasting consequences in the long term. First, the Monterrey Conference established in stronger terms than any other conference that each country is primarily responsible for its own economic and social development. The course of the debate during the Conference leaves room for hope that many developing countries have accepted this message. For their part, the industrialized countries were forced to note that the developing countries can no longer be denied a greater say in the decision-making processes of the international organizations. Although it was not possible during the Monterrey Conference to clarify in detail how the legitimate interests of the developing countries can be safeguarded in the various institutions and where the limits to a bigger say lie, the Monterrey Consensus increased the political pressure on the institutions concerned to such an extent that they will have to change in this respect in the future.

Besides these two important changes, the Monterrey Consensus also reveals many shifts of emphasis in certain areas. A particular example of this is the inter-

national community's determination to combat corruption and cut off the supply of funds to international terrorism, to increase the effectiveness of ODA, to share the burden more fairly during debt crises, possibly to establish international insolvency law and to strengthen the private sector's role in the development process. It should not be forgotten that it is often the "small" developments which – viewed from an historical perspective – make a lasting change to the world.

In one respect the Conference on Financing for Development even set new standards: the very broadly based participation of the business community and the non-governmental organizations from the outset. At all times both groupings had an opportunity to put forward their arguments during the debate. Whether it was possible to achieve better results through this broader approach may not be the relevant question in the case of international conferences. What is more decisive is that it was possible in Monterrey to integrate the whole range of opinions into the process.

Many issues were left open or were not considered adequately at the Conference on Financing for Development. Some observers regarded this as a sign of the limited success of the Conference. What they fail to see, however, is that not all questions raised by a holistic approach to development financing can be properly discussed during a financing conference. In the final analysis, however, it can be pointed out to the critics that the Monterrey Consensus would not have been possible only five years ago.

#### Dr. Detlef Radke

*Head of the Department for Globalization: Trade, Direct Investment, Monetary Policy and Development Financing until 31 December 2001 and a member of the German Delegation to Monterrey and the Preparatory Committees*

#### Further reading:

**UNITED NATIONS General Assembly** (1/2002): Monterrey Consensus, Draft Outcome of the International Conference on Financing for Development, Doc. A/AC.257/L.13

**UNITED NATIONS** (12/2000): Report of the Secretary-General to the Preparatory Committee for the High-Level International Intergovernmental Event on Financing for Development, New York 2001

**Radke, D.** (2001): *Stellungnahme zu dem Report of the Secretary-General to the Preparatory Committee for the High-Level International Intergovernmental Event on Financing for Development*, Bonn